

## Macau Property Opportunities Fund (MPO.L)



*MPO Fund is a geared play to Macau's burgeoning economy. Revenues from casinos have overtaken those of the Las Vegas Strip and the resulting construction boom is driving up to double-digit growth rates in property prices.*

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# Initiation Report

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I certify that this report represents my own opinions.

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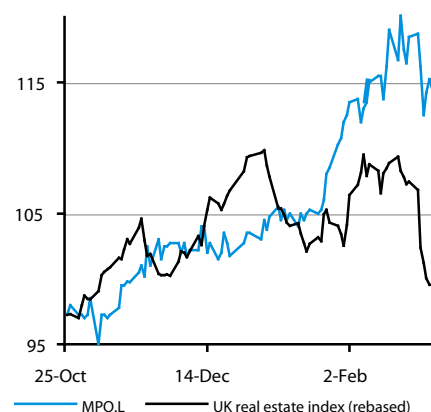
## Key Points

5 March, 2007  
Price: 113p

*Macau Property Opportunities Fund (MPOF) is a geared play to Macau's burgeoning economy. Revenues from casinos have overtaken those of the Las Vegas Strip and the resulting construction boom is driving double-digit growth rates in property prices. Execution risks on vital infrastructure projects are clear and Taiwan is a source of potential political risk. Our valuation model has erred on the side of caution and our central case shows the potential for significant capital growth from an experienced team of investment managers with good local knowledge.*

- Macau's double-digit GDP growth rates have been driven by the growth in gaming revenues (and associated tourism) which last year hit almost US\$7bn and overtook those from the Las Vegas Strip. Macau is the only part of China where casinos are legal.
- Monetary policy has been relatively tight and we expect future gaming revenues to show "modest" double-digit growth. Macau operates effectively a (unique) double currency peg via HK\$ to the US\$. Its "sound" economic policies are reflected in Moody's recently reiterated A1 credit rating.
- We expect future growth to be driven particularly from the neighbouring Pearl River Delta where the 50m population enjoy per capita incomes rising at three times the national PRC average. The 2008 Beijing Olympics should further gild the lily.
- Demand for housing is high and includes relatively low-cost housing for aspirant white-collar workers as well as the high-rollers. Major and vital infrastructure projects are underway with an estimated US\$35bn of investment spending estimated to have been committed.
- MPOF's Investment Managers have a good track record based on local knowledge. Properties acquired in Q4 2006 were recently revalued by Savills who showed a 21% capital gain over the period. The interim results to December showed Adjusted NAV per share rising by almost 14% to US\$2.05.
- Clearly such growth comes with attendant risks. In particular are the execution risks in delivering on infrastructure projects, international political risks over Taiwan ahead of local elections there and the global scrutiny that will come with the 2008 Beijing Olympics.

### Price chart (p)



### Company details

Quote

-London AIM MPO.L

Hi-Lo last 12-mos. (p) 117.75 - 96.75

Shares issued (m) 105

Fully diluted (m) 105

Market Cap'n (£m) 118.1

Nominatee Advisor Collins Stewart

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### **The Macau Property Opportunities Fund (MPOF)**

MPOF is a closed-end property investment vehicle that was launched to capitalize on the potential growth opportunities being generated by strong economic development in Macau in particular and the Pearl River Delta area of China in general. It was incorporated in Guernsey on 18th May 2006 and was listed on the London AIM market on the 5th June 2006. At the time of listing the company raised some £101m net of expenses by way of placing 105m shares at £1.

### **Investment returns and use of funds**

MPOF returns are expected initially to comprise capital growth, with the potential for dividends over the medium to long term. MPOF has been permitted to cancel its share premium account and treat the amount credited as a distributable reserve available for dividends or to fund the purchase of up to 14.99% of its own shares.

### **Investment Manager and Investment Adviser**

Sniper Capital Limited has been appointed as the Investment Manager to MPOF and Sniper Capital Management Limited as the Investment Adviser. Both are owned and managed by Thomas Ashworth, Non-executive Director to MPOF, and Martin Tacon. Both have extensive experience gained operating in the Asian real estate and finance markets. MPOF will pay Investment Management fees comprising two elements. The basic fee will be struck at 2.0 % of the Net Asset Value (NAV) and the performance fee is payable for growth in NAV above certain thresholds.

### **Dynamics and drivers of the Macau property market**

The Macau economy is driven by the double-digit growth rate in gambling and associated tourism; Macau is the only city in China where gambling is legal. Last year gambling revenues rose to almost US\$7bn, greater than those from the Las Vegas Strip. The resulting Klondike rush in residential and other construction activity has seen land prices and achieved rentals rising at above 10% pa and rental yields of 5% are typical, similar to US 10-year treasury yields. Demand for housing includes aspirant white-collar workers as well as the super-rich. MPOF will cater for both and not restrict itself to high-roller developments.

### **Macau's political and economic environment**

Macau is a Special Administrative Region (SAR) of the People's Republic of China (PRC). As with neighbouring Hong Kong, the PRC operates the principle of "one country, two systems" in Macau. The PRC is responsible only for defense and foreign policy. Macau sets its own domestic legal system and economic policy, including the operation of its unique double currency peg, via the HK\$ to the US\$. Moody's has recently reaffirmed its A1 credit rating.

### **Corruption scandal points to improving standards of government**

In December 2006 the Secretary for Transport and Public Works, Ao Man-Long, was arrested on suspicion of graft. The arrest followed cooperation between Macau's Commission Against Corruption and Hong Kong's Independent Commission against Corruption and has been followed by further arrests.

While it is too early to judge if this is a determined effort by central government to raise the standards of local government, any reduction in the level of corruption can only be good for companies like MPOF. In the long run, it is possible that Macau will move to a land auction system similar to Hong Kong.

### **Macau's economy is more than that of a small peninsula**

Macau is small comprising the Macau Peninsula (8.9 sq km), the islands of Taipa (6.5 sq km) and Coloane (7.6 sq km) and the reclaimed area of COTAI (5.2 sq km). Its population is around 500,000. But it is the hinterland of Macau that provides by far its greatest source of consumption demand and of labour supply. The Pearl River Delta has been one of the fastest growing regions of China with GDP growth averaging 13% annually in recent years. Per capita GDP is more than 3x the PRC average and the Delta generates some 20% of the total GDP of the PRC. Its population is estimated at 50m and is expected to grow to 75m within a decade.

### **Major infrastructure programmes are vital and underway**

In January 2006 the government announced its 20-year urban development plan which expects that the population will have increased by 27% in 2023. It calls for the reclamation of almost 3 square km of land, about a third of the actual Peninsula. Most of that will be designated for property development. Capacity at the airport is to be expanded and new road and rail links are planned around the region.

## Key Risks

### **Economic**

Macau's status as a SAR of the PRC is similar to that of Hong Kong's, "one country, two systems". Its currency is pegged to the US\$ via the HK\$ and Moody's recently reaffirmed its A1 credit rating. However the local combination of double-digit money supply growth and single-figure US interest rates would anywhere else be a cause for unwelcome speculative interest.

### **Political**

Macau's political system is locally independent in all matters apart from defense and foreign policy. The latter is likely to loom large over the next two years in the form of Taiwan where elections are due later this year ahead of the 2008 Beijing elections. Local, and some international, speculation suggests a risk that either or both of Taiwan and the PRC may decide that 2007 is the last chance to prosecute their own vision of the future for Taiwan. Any maladroit moves by either party would risk the involvement of the USA through its standing naval presence around Taiwan.

The USA has taken the role of *de facto* defender of Taiwan's independent status since at least the 1950s and in 1979 the Taiwan Relations Act was passed by Congress. Any escalation of ambition towards Taiwan by China, would threaten involving the USA and would clearly have a negative effect on regional tourism including that of Macau. Undoubtedly the international community would seek to defuse any such tension.

## **Social**

Gambling can be associated with the seamier side of life including human trafficking particularly in the sex trade. The US State Department put Macau on its Tier 2 Watchlist in 2004 for failing to demonstrate increasing efforts to combat people trafficking. Tier 2 is one above Tier 3 under which non-humanitarian and non-trade sanctions may be applied. The combination of bright lights and cash prizes can also act as a lure for organized crime. Anecdotal evidence suggests that, since Macau became a SAR of the PRC, such crime activity has reduced sharply. However, the anticipated high economic growth rates and the expected influx of tourists over the Beijing Olympics may prove too much of a temptation.

### **Execution risk on infrastructure projects**

Macau's 20-year development plan envisages a 27% population increase, not to mention the transient population movements associated with tourism. If those plans are to be delivered, and with them the high single digit economic growth rates, then the infrastructure projects currently underway will have to be delivered. If they are delayed or, less likely, abandoned we expect material and negative consequence for growth and thus property demand.

### **MPOF performance risk**

MPOF's Investment Managers and Investment Advisers are owned and managed by Thomas Ashworth, Non-executive Director to MPOF, and Martin Tacon. Both have extensive experience gained operating in the Asian real estate and financial markets. However their experience directly of the Macau market is more recent. It is a crowded market place in which a small "niche" player may find itself marginalized.

## Valuation

MPOF's recent price of 113p translates to some HK\$17.02, a modest 1.2% discount to our estimated 2007 NAV of HK\$17.25 per share. Putting that in context is complicated by the uniqueness of the proposition and thus paucity of appropriate comparators. We are aware of operations such as those of Sun Hun Kai, Sino Land and Henderson Land. But those are relatively large and more geographically diverse.

More comparable perhaps are the Kowloon Development Company (KDC) and (effectively) its Macau property arm Polytec Asset Holdings (PAH). KDC has, through its (almost 60%) stake in PAH recently extended its sphere of operations beyond its traditional Hong Kong base to include Macau but even so the territory represents less than 20% of its estimated land bank. Its estimated NAV is some HK\$20.80 to which its recent share price of HK\$14.70 stands at an almost 30% discount.

However, PAH represents the purest play on Macau of these comparator companies and has some 9 million square feet of developable land in the SAR. Its recent share price of HK\$2.65 is at a more modest 8% discount to its estimated NAV of HK\$2.90.

The message appears to be that investors are prepared to pay more highly for direct exposure to Macau's property market. Note that the PAH comparison is struck after what might be expected to be a discount for the relatively low free float.

MPOF appears to us to provide investors with one of very few alternatives for direct exposure to Macau's burgeoning property market.

At its recent price of 113p our forecast NAV, for MPOF is HK\$17.25 for end 2007.

The territory of Macau is an exciting economic development story that has been recognised in Asia and North America, but less so in Europe.

Macau's future development looks to be promising. Factors driving that potential include:

- connectivity with Hong Kong and Guangdong, China's most dynamic province;
- location relative to an increasingly prosperous mainland China and the other growing tiger economies;
- proximity to potential tourist business. More than 700m people live within 2 hours flying time and 2.9bn within 5 hours;
- Special Administrative Region (SAR) status - along with Hong Kong. This status confers upon Macau the right to allow gambling and it is the only area in China where this activity is legal;
- attraction to mainland Chinese, who since the introduction of Facilitated Individual Travel (FIT) permits in 2003, have increasingly chosen Macau for its gambling and leisure facilities;
- relative cheapness compared to near by Hong Kong;
- attraction to inward investment from investors who see the potential of Macau, viewing it as an Asian Las Vegas in the making. Estimates of committed investment in Macau by 2015 vary from US\$20bn to US\$30bn.

In addition, vast infrastructure projects are planned for the Pearl River Delta area, including rapid transport links between Hong Kong, mainland China and Macau.

Macau's 28 sq. km area is less than 5% that of Hong Kong and its population is growing largely to service its developing activities. By the end of 2006 it had increased to just over 508,000, with a population density over 2.5x greater than Hong Kong making it one of the highest in the world. As a result land is scarce and much of what is available has been under-invested over many years.

### Map of Macau and Region



Source: Sniper Capital

Today the Macau property market offers investment potential driven by demographic and socio-economic changes and by the relative transparency of land ownership, security of title and a relatively established banking and finance system. Investors have been exploiting that combination in recent years but, as the only legal centre for gambling anywhere in China, we expect continued growth, at least in line with prevailing GDP.

Macau Property Opportunities Fund (MPOF) has been designed to capture some of the property growth potential in the territory for investors, using professional advisors with wide experience of the area and strong local contacts. It is important to understand that it is a niche business that relies on the knowledge, skills and established contacts of the Investment Manager and Adviser.

### **Macau Property Opportunities Fund Limited (MPOF)**

MPOF is a closed-end property investment vehicle that was launched to capitalise on the potential growth opportunities being generated by strong economic development in Macau in particular and the Pearl River Delta area of China in general. It was incorporated in Guernsey on 18th May 2006 and was listed on the London AIM market on the 5th June 2006.

The Fund's authorised share capital is 300m Ordinary Shares of US\$0.01 each, amounting to US\$3m in total. The placing of 105m shares at £1.00p raised approximately £105.0m or approximately £101m post expenses. The company's accounting currency is US\$.

MPOF returns are expected primarily to comprise capital growth, with the potential for dividends over the medium to long term. Such dividends will be declared in US\$ and paid in sterling, converted at the prevailing rate of exchange less expenses. The Fund has permission to acquire up to 14.99% of its own shares and can hold up to 10% of the total nominal value of the issued Ordinary Shares as treasury shares.

Guernsey's Royal Court has permitted MPOF's share premium account to be cancelled and credited as a distributable reserve. This distributable reserve can be used for dividends and purchasing its own shares amongst other items. While the Ordinary Shares carry equal rights, there are no pre-emption rights for existing shareholders in connection with any fundraising. The Company has a life of 8 years before shareholders have the opportunity to vote on its future and every 5 years thereafter for as long as the fund continues

Properties will be valued on a 6-month cycle, by an internationally recognised property appraiser. Savills have been appointed as valuer to the fund. Valuation will be made on an open market basis in accordance with prevailing RICS property valuation practice and guidelines for investment and development properties (the Property Investment Valuation Basis).

The Net Asset Value of the MPOF Ordinary Shares will be calculated half-yearly on the basis of IFRS. As a guide, the Company may borrow up to 75% of any single investment by market value; or 60% of the total value of all investments, when fully invested.

The Company intends to use wholly-owned special purpose vehicles (SPVs) to hold its property investments where and when they can add value to shareholders. The Company does not intend to invest in third party managed collective investment companies. Joint ventures will be considered only where they can reliably add or enhance shareholder value.

The Macau Official Pataca (MOP) is pegged to the HK\$, which is in turn pegged to the US\$. It is local practice to use the HK\$ in Macau's property market, so most rents and capital gains will be in that currency. However some may be in the Pataca and some possibly in the Renminbi, should investment be made in the Pearl River Delta area of China.

The Board of Directors comprises 5 non-executive directors. For biographies please refer to Appendix on p. 43. The names of the directors and their holdings in the Fund at the time of flotation are set out below. Board members have agreed to retain their shares for a minimum of 12 months from June 2006.

Sniper Capital Limited has been appointed as the Investment Manager to MPOF and Sniper Capital Management Limited as the Investment Adviser. Both are owned and managed by Thomas Ashworth, Non-executive Director to MPOF, and Martin Tacon. Both have extensive experience gained operating in the Asian real estate and finance markets. Sniper Capital Limited has particularly relevant regional property experience through its South China Sniper Fund (SCSF), a private fund which closed on the 1st July 2005 - it is now fully geared and invested.

SCSF's objective is to 'deliver superior returns to shareholders through the opportunistic acquisition, development and disposal of property in Macau.' As at 31 December 2006, SCSF had gross property assets under management of circa US\$105m and, based on an independent 'open market valuation' showed an annualised return (after management and accrued performance fee) of over 35%.

#### Directors' shareholdings

Name	Number of Ordinary Shares	%
David Hinde	20,000	0.02
Alan Clifton	50,000	0.05
Tim Henderson	25,000	0.02
Richard Barnes	25,000	0.02
*Thomas Ashworth	525,000	0.50

(\* also Director and Principal of Sniper Capital Limited and Sniper Capital Management Limited)

The Directors fees may not exceed £250,000 in any financial year.

Board members must retain their shares for a minimum of 12 months from June 2006

Source: MPOF

While the success of the Fund will be derived from the skill, knowledge, experience and contacts of the principals and their key staff, the Manager's principal fiduciary responsibility is to 'formulate investment proposals for the Board to consider and provide associated day to day investment management services to the fund. The Manager is also responsible for the payment of all fees to the Investment Adviser.

Given that MPOF's investment Manager and Adviser also provides services to the SCSF, there is potential for a conflict of interest. As we mentioned above SCSF is now fully geared and there is no present intention that we are aware of for it to fund further development. Clearly that may change at some future date.

MPOF has a contract with the Investment Advisers that prohibits property acquisition and development activities in the fund's area of interest, unless it is offered first right of refusal on the same terms. This agreement holds until the MPOF has committed to investments of up to 90% of the total value of the fund.

In reality there is unlikely to be a significant problem as the SCSF has a completely different and more narrow set of investment criteria than that of the MPOF. SCSF concentrated on redeveloping traditional low rise residential properties into restaurant and entertainment outlets on Taipa Island, where the Government wishes to preserve the local style and character of architecture.

MPOF's objective is to generate attractive total returns for shareholders. Investment opportunities are generally required to have the potential for producing an IRR of 20% or over. These total returns are expected primarily to comprise capital growth, with the potential for dividends over the medium to long-term. Given the dynamic nature of the market, the Manager expects that the Fund, as it is presently constituted, to be fully invested within 18 months of flotation.

The Fund will focus on property investment opportunities primarily in Macau, but also potentially in the Western Pearl River Delta region and, in exceptional circumstances, greater China. It is expected (but not guaranteed) that an individual project should not exceed 30% of MPOF's gross asset value at the time of investment.

### **Investment strategy**

Currently in Macau there are several major developments either underway or at the planning stage. These major projects often exceed US\$1bn each and include several new mega casinos and hotel/conference complexes, together with leisure, retail, residential and office space. There are also major infrastructure projects underway to support current and future developments in the area. These developments have attracted not only local and Hong Kong developers, but also major international companies.

MPOF intends to capitalise on its strengths by using its experience, flexibility and local knowledge to target niche development opportunities that are often overlooked by large developers. The advisers aim to add value to projects through the most suitable combination of development, refurbishment, redevelopment, change of use and repositioning.

The Manager will seek to maximise the total return on the company's property investments, either through selling the properties after development or redevelopment or by generating rental income.

MPOF will pay Investment Management fees comprising two elements: basic and performance related. The basic fee will be struck at 2.0 % of the Net Asset Value, paid quarterly in advance in US\$. The NAV will be calculated on the Property Investment Valuation Basis based on RICS guidelines.

The performance fee itself comprises two elements: performance and super-performance. The former is to be 20 % of the "excess" of the adjusted NAV per share and will be payable over the higher of:

- an amount equal to the US\$ equivalent of the Placing Price increased at a rate of 10% p.a. on a compounding basis up to the end of the relevant performance period; OR
- the adjusted NAV per ordinary share at the start of the relevant performance period; OR
- a 'high watermark', multiplied by the time weighted average of the ordinary shares in issue in the relevant performance period.

A super-performance fee of a further 15% of the excess of the adjusted NAV per ordinary share will be payable over the higher of:

- an amount equal to the US\$ equivalent of the Placing Price increased at a rate of 25% p.a. on a compounding basis up to the end of the relevant performance period;
- the Adjusted NAV per ordinary share at the start of the relevant performance period;
- a 'high watermark', multiplied by the time weighted average of the ordinary shares in issue in the relevant performance period.

# MPOF's Market Environment

## Introduction

The prospects for the Macau Property Opportunities Fund (MPOF) hang clearly on the health of the Macau economy. In turn that is driven by the double-digit growth rates in gambling which is fuelling something of a Klondike rush in residential and other construction. Land prices and achieved rentals have been rising at above 10% pa and rental yields of 5% are typical.

The link between gambling and property is clear, and made more stark by the observation that just one example of each holds a dominant market share: Baccarat is estimated to generate two thirds of gaming revenues and Mr. Stanley Ho is estimated to have 63% of the Macau gaming market – and is the largest land owner.

Away from the Ritz and Glitz of the Cotai waterfront developments, MPOF works closely with old Portuguese money to refurbish and build housing suitable for the workers who keep the (roulette) wheels firmly on the wagon of this economy.

## A brief history

Macau lies at the mouth of the Pearl River, downstream from Guangzhao (Canton) in Southern China. Its name derives from Ou-Mun, or “trading gate”, from the days when it stood at the start of the Silk Road. It was known locally as A Ma Gao, in honour of “Ma” the Goddess of Seafarers, and that name was abbreviated to Macau by 16th century Portuguese settlers.

Today Macau is a Special Administrative Region (SAR) of the People's Republic of China (PRC), a short 15-minute helicopter ride from Hong Kong. Hong Kong (HK) became a SAR in 1997 and Macau in 1999. Geographically it comprises the Macau Peninsula (8.9 sq km) and the islands of Taipa (6.5 sq km), Coloane (7.6 sq km) and the reclaimed area of Cotai (5.2 sq km). Its population, as at September 2006, was 508,000.

The high net worth image of helicopters juxtaposed with stereotypes of China is but one illustration of the principle of “one country, two systems” under which local laws and monetary systems prevail in each SAR with the PRC responsible for defence and foreign policy.

Today Macau's gambling and casino facilities are its biggest visitor attraction and provide the single largest contribution to its economy. Hong Kong by contrast has limited betting facilities and no casinos. In November 2006 the HK government refused even to consider building a casino anywhere in HK citing the sacrifice of “moral values” were it to do so. Macau's local monopoly seems assured for the foreseeable future.

In 2006 gaming revenues of almost US\$7bn exceeded those of the Las Vegas Strip for the first time. New projects underway are intended to consolidate its position as “The Gaming Centre of the World” and to exploit further the estimated 3 billion population living within 5 hours flying time of Macau International Airport.

## Monetary policy

Macau's official currency is the pataca (currency code MOP, sometimes MOP\$). However by the time of the handover back to the PRC in 1999, patacas represented less than 30% of notes and coins in circulation. Over 70% was circulating in HK\$, the de facto currency unit. The Monetary Authority of Macau (AMCM) has authority to issues patacas and responsibility, *inter alia*, to "monitor internal monetary stability".

Unsurprisingly the MOP\$ is pegged to the HK\$, at a rate approximately of MOP\$1.03. The HK\$ in turn has been pegged at HK\$7.8 to the US\$ since October 1983. The allowable trading range for the HK\$/ US\$ peg was narrowed in 2005 to between HK\$7.75 and 7.85 to limit opportunities for proxy speculative bets on any Renminbi revaluation. Overall the exchange rate to US\$ is around 8 patacas. Currently there are no restrictions on local or foreign currency movement in or out of Macau.

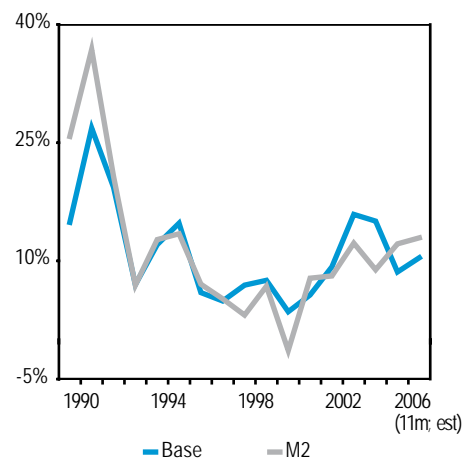
Macau's currency board arrangement (CBA) operates effectively through a unique double currency peg: the formal peg to the HK\$ and the HK\$ peg to the US\$. It has been in operation since 1977, when the HK\$ was floating and since 1983 when the HK\$ rate was fixed to the US\$.

Significantly the present arrangement was in operation during the Asian currency crisis of 1997/98. Interest rates spiked to almost 20% but the peg held, as it did in HK. Indeed that experience was a demonstration of the preparedness of local authorities to operate the peg in classical fashion, alongside other elements of economic policy. We believe that the AMCM would operate again in this fashion should conditions demand it.

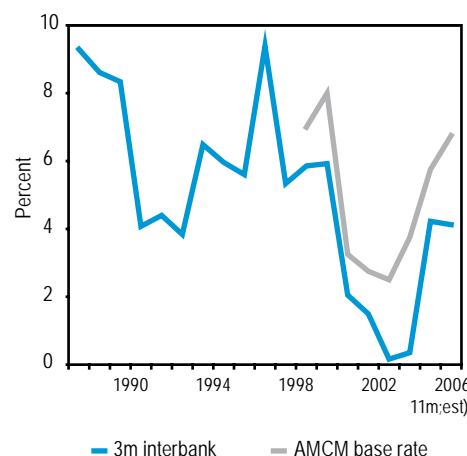
Any CBA can only operate successfully if there is a commitment to interest-rate and exchange-rate arbitrage and to "economic discipline". Effectively that means that the government must accumulate sufficient foreign reserves as to be able to defend the peg (by selling in this case US\$), must be prepared to operate the arbitrage programme (ie political will) and must operate "sound" fiscal policies such that sovereign debt is substantially zero (more political will).

Clearly the observation of double-digit growth in money supply (see below) and, effectively, US-style monetary policy, leaves room for caution. But so far the arrangement has proved sound and to international accord. In 2003 Moody's upgraded Macau's credit rating from Baa1 to A1, and confirmed the latter in its 2006 report.

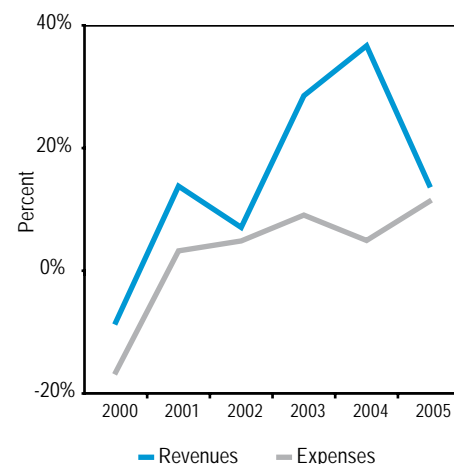
## Macau money supply growth (YoY)



## Macau interest rates

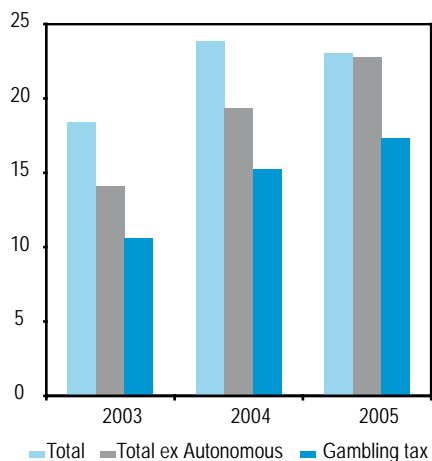


## Macau budget growth rates (YoY)

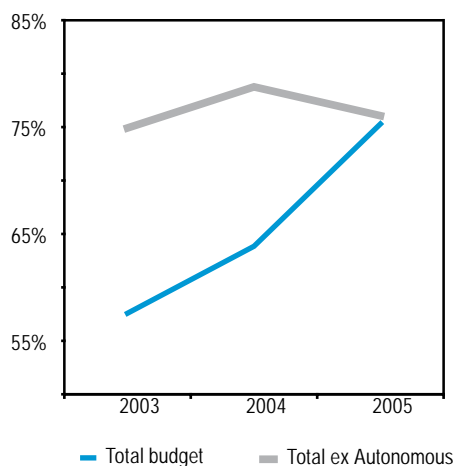


Source: AMCM

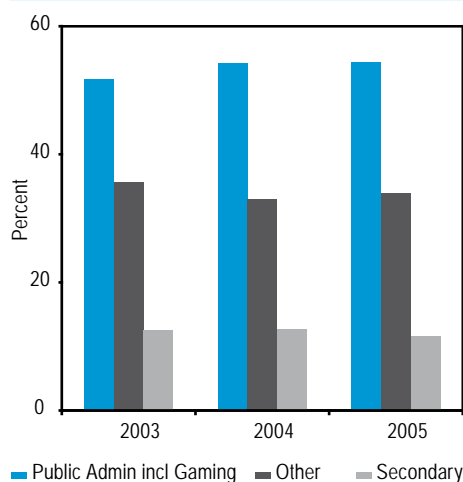
## Macau: public revenue (MOP bn)



## Gambling as a % of public revenues



## Components of GDP (current)



Source: DSEC

## Growth drivers

The rise in interest rates since the bottom in 2003 have perhaps begun to reign in the runaway train that seemed to be developing since the turn of the century and the recovery from the dot.com bust. Note also that the yield curve between base rate and 3-months is "inverted" ie base rate is higher. The shortness of the durations caution against any slavish interpretations as to the thrust of monetary policy. But the fact that the Macau base rate is also higher than US 10-year yields (a reasonable proxy in our opinion for those that might obtain in Macau) goes to confirm the sort of inversion that would ordinarily be associated with a central bank's attempts to cool the economy.

The effects of any tightening may be felt also in the growth rate of gambling revenues. Latest government data show US\$6.9bn gross gaming revenue from Macau casinos in 2006, up 23%. Clearly keen to dampen any "irrational exuberance" Mr Francis Tam Pak Yuen, Secretary for Economy and Finance, said that he expects "modest double digit growth" in 2007 (source: Government Information Bureau; Feb. 14th 2007). If only Mr Greenspan had had such a luxurious problem in December 2006!

The 2005 growth rate in budgetary receipts fell back towards 10% after the almost 40% hit in 2004. To the extent that the fall was caused by the gradual tightening of monetary policy, it suggests a fairly typical monetary time constant of about a year to 18-months.

But this is no ordinary economy. Revenue from gambling taxes represent some 70% of budget income and almost 80% of government revenues excluding those from "Autonomous Agencies" (source: Directorate of Statistical and census Services, DSEC)

## Key economics statistics

	Period	Figure	YoY % Change
Unemployment rate	Q4 2006	3.5%	-0.5%
CPI	2006	108.42	+5.15%
Visitor Arrivals	2006	21,998,122	+17.6%
Gaming Receipts	2006	US\$6.96bn	+22.0%
Median Monthly Employment Income	Q3 2006	US\$871	+16.3%
Real GDP	Q3 2006	US\$3.44bn	+17.06%
GDP Per Capita (estimate)	2006	US\$26,100	+7.3%
Retail Sales Value	Q3 2006	US\$332m	+21.2%
Population	Q3 2006	508,500	+5.4%

Source: DSEC, Macau

The significance of gambling is repeated at the level of the whole economy.

Note that "Secondary" refers to that sector of the economy and comprises manufacturing, utilities (excluding communications) and construction.

Over the period of the chart manufacturing continues its decline.

Only construction has shown any significant increase in contribution to GDP.

Not only has there been an acceleration in the total area developed especially in Residential and "Other" but the average unit size has also increased. While land reclamation on Cotai is vital, the pace of demand appears to be driving development literally skywards.

Unsurprisingly the increase in unit size links also with trends in population density.

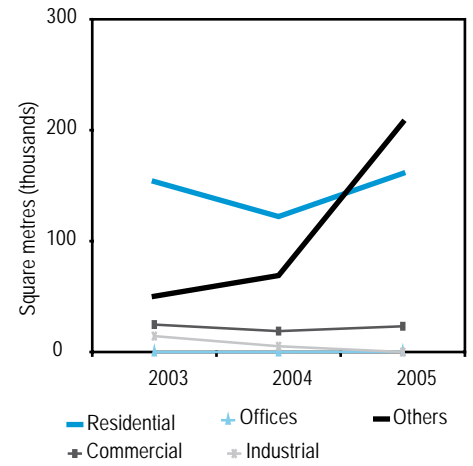
The skyward push in Macau property and prices reached its most recent and literal zenith on February 12th of this year. Mr Stanley Ho, the largest landowner in the SAR, opened Macau's 25th casino, the HK\$3.8bn Grand Lisboa. He now owns 18 of them, operated through Sociedade de Jogos de Macau (SJM) with estimated market share of 63%. That market share is under pressure from Las Vegas operators after the Macau government took measures to break his gambling monopoly. But, whether the impetus comes from local or overseas operators, the likely direction and impact on the local economy are clear.

The upward pressure on land and housing prices is not simply a function of natural population growth. Construction leisure-industry workers themselves need to be housed and tourists demand hotels and sometimes permanent accommodation. A recent survey by AC Nielsen (reported 15th February 2007) found that 43% of all Chinese who plan to travel outside the mainland during the Lunar New Year will go to Macau. In fact the hinterland of Macau provides its greatest source of consumption demand and labour supply: Guangdong province and, within that the Pearl River Delta.

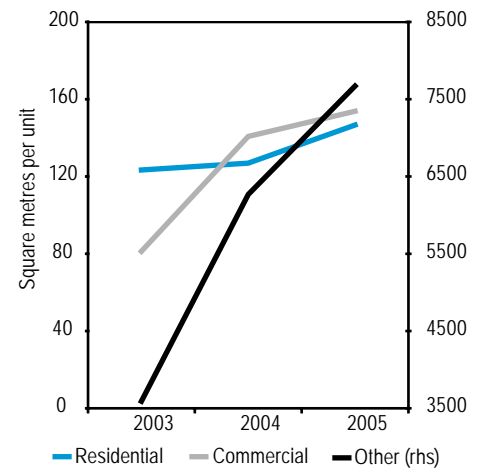
Guangdong has three of the first Special Economic Zones (SEZs) established by the PRC (Peoples Republic of China) in the 1980s. Exports through the region have at times represented some 40% of the PRC total. As a result per capita income has risen sharply and, by the turn of this century, was more than 50% higher than the PRC average. It is estimated that over 90% of the populations of Macau and HK originate in Guangdong province.

Within the province, the Pearl River Delta comprises some 23% (over 40 thousand square km) of its land area. It has been one of the fastest growing regions of China with GDP growth averaging 13% annually in recent years. Per capita GDP is more than 3x the PRC average. It alone generates some 20% of the GDP of the PRC with a population estimated at 50m, expected to grow to 75m within a decade. (Source Macauhub)

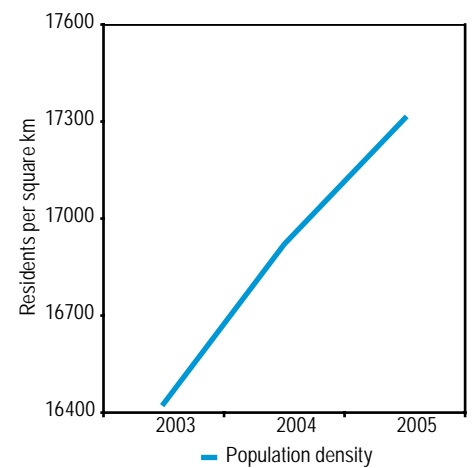
### Macau construction activity by sector



### Macau: changes in unit size



### Macau: population density



Source: DSEC

The scale of such population movements, both actual and potential, is truly enormous and it takes no stretch of the imagination to imagine its impact on Macau's economy and property industry. If there is a fly in the ointment it may be the capacity of the government to process applications for residency. Mr Yen (Secretary for Economy and Finance) also said (February 14th 2007) that the Government could process some 2,300 applications for property residency every year. He estimated that about 2,100 were approved in 2006. Although he said that there were no plans to amend (relax?) conditions for residency he did indicate that the government would step up construction of public rental housing and push forward a Home Ownership Scheme, in line with policies outlined in the 2006 Policy Address (Source: Government Information Bureau)

Evidently the scale of economic activity overlaid on the physically small size of the SAR implies considerable demand for new and adequate infrastructure. Not only do local systems need to be "fit for purpose" but also the transport and other links between Macau and its hinterland, and beyond.

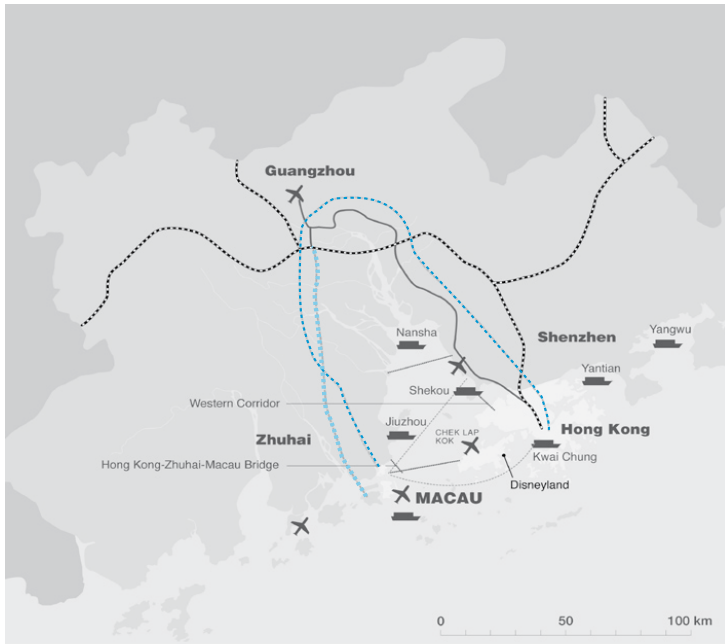
In January 2006 the government announced its 20-year urban development plan. Its preliminary study envisages that the population will increase by 27% to reach 610,000 in 2023. The plan calls for reclamation of almost 3 square km (some 11%) principally along the coastal sea bed of the Macau Peninsula and Taipa. Of that around 55% will be designated for property development including residential, commercial and hotels. The balance of the reclamation is expected to be zoned for leisure space, communal space and for roads.

In the near to medium term Macau International Airport (MIA) is to increase the number of take-off/ landing slots and is going to link up with the new Pac On ferry terminal on Taipa. Once completed the so-called "Sea-Air Express Link" will provide air passengers easy access to ferries serving a number of ports in the region including in the Pearl River Delta.

In addition a 1.9km road tunnel is expected to be completed in 2009 and will join the Macau Peninsula with Taipa. The tunnel is to be complemented by a Light Rapid Transit (LRT) rail system linking the same territories.

The plans are suitably and necessarily grand. Once delivered they will help to make (literally) concrete much of Macau's promise today. Inevitably the plans carry the attendant execution risks of any major project: delays and cost over-runs. But there is much at stake and recent experience both here and on the mainland suggests timely completion. The chances of the project failing altogether appear to us to be vanishingly small in the absence of major political upheaval, such as any maladroit moves over Taiwan.

## Regional infrastructure



- Existing railway
- Proposed superhighway
- Ferry routes
- Proposed high-speed railway
- Proposed bridge / road
- Port
- Existing superhighway
- Proposed tunnel
- Airport

## Local infrastructure



Source: Sniper Capital

# The Macau Property Market

Macau's property market is benefiting from its booming economy, rising incomes, with more investment in gaming, leisure, hotel/conference complexes and tourist projects still only at the planning stage. At the end of 2006, there were 19 hotels under construction, and 34 more at the planning stage.

Macau also has a limited supply of land in general and a lack of good quality properties in particular. This is important as increased salaries, low unemployment and rising consumer expectations suggests good potential returns for developers meeting those needs. The following is sourced from the MPOF's presentation pack, but is very similar to that produced by many Government Agencies, developers and real estate companies.

## Property drivers

- Positive macro and micro-economic outlook
- Scarcity of land - only 27.5km<sup>2</sup>
- Limited property stock due to 10 years of underdevelopment
- Obsolescence of existing properties as new projects complete
- Rising disposable incomes & employment
- Accelerating expatriate population
- Investors attracted by "Asian Las Vegas" investment theme
- Transparency of land ownership and secure title
- Developed banking and finance system
- Active residential secondary market
- Access to Investment Residency status
- Established leasing market

From the investors point of view, Macau's property market benefits from its legal system having its roots in Portuguese civil law, which has left it with a relatively transparent land ownership system where security of title is fairly easily established. It also has a relatively benign tax system. With these factors working in its favour, together with an active secondary market and an established banking system, it is not surprising that Macau has been attracting substantial inward investment.

## Macau's property law

In Macau, foreign firms and individuals are free to establish companies and there are no ownership restrictions. Land use is effectively divided into several types:

- **Freehold land**

Owners of freehold land are permitted to construct buildings without payment of land premiums.

- ***Leasehold land***

Leasehold land is subdivided according to the term of lease: permanent leasehold and leasehold of specified durations, usually 25, 35, 50 or 75 years. Permanent lessees of leasehold land must follow the terms of the government lease in the construction, management and occupation of properties on that land and must pay an annual land tax. Leaseholds of specified durations are automatically renewed upon expiry for an additional term of 10 years.

- ***Temporary use land***

Temporary use land is very restrictive: the user is permitted to utilise the land for a specified purpose for one year only, and no permanent structures can be constructed on that land.

- ***Government land***

Government land comprises of parks and other facilities intended for public use, and it also includes land under reclamation, land without any known registered rights (“unclaimed land”) and all land assigned for future development under leasehold but not yet leased out.

- ***Traditional land***

The term “traditional land” describes sites whose ownership was granted prior to the colonisation of Taipa and Coloane in the mid 1800s. The Macau Government does not currently confer any legal rights to owners of traditional land.

- ***Security of title***

The Macau government has established a centralised property database, where title to property is formally registered.

## **Macau taxation**

In Macau there are three principal relevant tax regimes: Complementary (Corporate Income) Tax, Property Tax and Stamp Duty. For more details see Appendix 3

- ***Complementary (Corporate Income) Tax***

The Complementary Tax is calculated on the total income earned by Macau registered operations doing business in Macau. Rental income from Macau properties is subject to Property Tax which is discussed below. There is no distinction made between a “revenue profit” and “capital profit.” All income booked by a Macau corporate taxpayer, including property profits, are subject to the Complementary Tax which is levied at 3% to 9% for taxable profits below MOP300,000 and 12% for taxable profits over MOP300,000.

In Macau, no withholding tax is imposed on interest payments to foreign parties and dividends paid by a Macau taxpayer entity out of its after tax profits will not be taxed again.

- **Property Tax**

Newly built residential and commercial buildings are exempt from Property Tax; the former for 4 years and the latter for 6 years. After the exemption period, the Property Tax is as follows:

- if the property is used for own residence, personal usage or business use, the Property Tax is charged at 10% plus a 5% surcharge on the liability on the official rateable rental value assessed by the Immovable Property Assessment Committee within the MFB;
- if the property is rented out, the owner will be taxed at 16%, plus a 5% surcharge on the liability, on the actual rental income based on the lease agreement submitted to the MFB.

Where cost of refurbishment/development is 50% or more of the fair market value of the property, it can be treated as a substantial construction. If this status is granted the property benefits from the same exemptions as do new build residential or commercial buildings.

- **Stamp Duty Regime on property**

Transfer of property is subject to stamp duty at 3% of the higher of sale price or the market value determined by the MFB, plus a surcharge of 5% on the stamp duty liability.

Where a transfer of Macau company shares or SPV resulting in the transferee holding 80% or more of the shares and that company holds Macau real properties a 0.5% stamp duty is imposed. The transferee will also be subject to a stamp duty of 3% on the property value, plus 5% surcharge on the liability.

A rental agreement on property is subject to stamp duty of 0.5% on the total rental income stipulated in the lease and is payable by the landlord.

## **Macau: the actual property market**

Macau's architecture has benefited from its Portuguese heritage, mixing European style with that of Southern China. Some of these buildings have been granted World Heritage status and the Government is keen to retain this traditional style that is unique in Asia. However, Macau's importance in trading terms was overtaken by Hong Kong and it became a relative backwater, relying on gaming until it was handed back to China in 1999. Lack of resources meant that little was invested in property in the territory and the quality and state of repair of the buildings deteriorated. Some were demolished as in Hong Kong but are now being restored.

In 2001 the Macau Government decided to abolish the monopoly control of gambling by Sociedade de Turismo e Diversoes de Macau (STDM) and seek tenders for three casino licences.

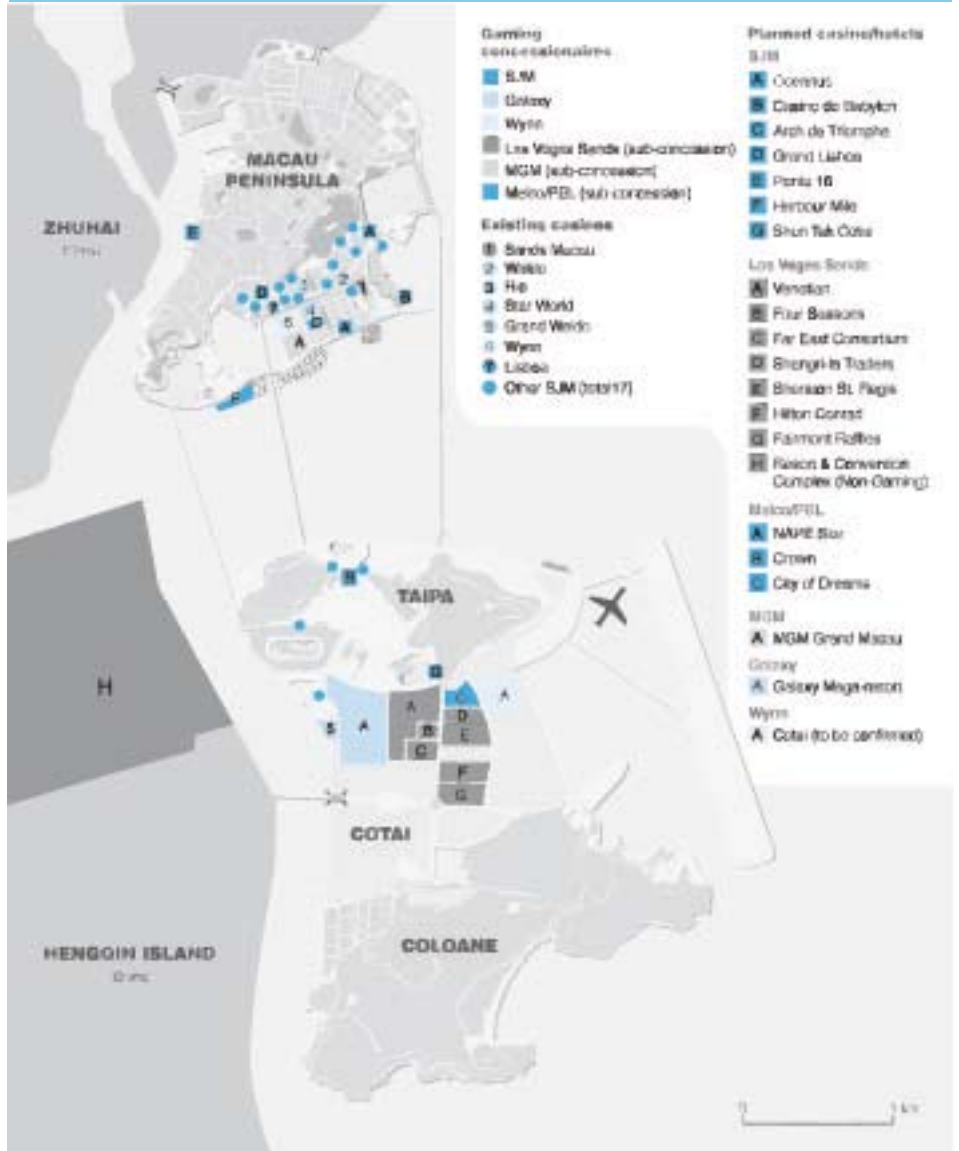
The decision led to both the old gambling operator and other local and overseas companies to commit to investment in the construction of new casinos, hotels/ conference complexes and associated leisure and tourist facilities. Estimates vary for investment from US\$20bn to US\$30bn, with some as high as US\$35bn — most of this investment is still to come.

The following diagram shows just some of the companies that have committed investment to Macau. Others, such as Virgin, have more recently announced that they intend to invest US\$3bn in Macau, but the exact locations have yet to be confirmed.

## **Still opportunities in a growth market**

As a result of the lack of investment during Portuguese rule, Macau's property market is fairly immature by Western standards, with major international property agencies and consultancies having only recently begun to establish themselves there. However, with the major international companies largely looking at the large developments associated with the casino driven complexes, there are opportunities for well focused developments targeted at specific areas of customer demand.

## Location of casinos



Source: Sniper Capital

## Recent development in the Macau property market

In August 2006 Colliers International published a survey covering various property types (eg Residential and Retail) over two periods: the first from 1995 to 2005; the second for Q2 of 2006. Key findings were:

### 1995 to 2005

- **Residential**

Recent studies show that a combination of immigration and an increase in the number of Macau family units has increased the total number of households by 38%, to more than 134,000 in the 10 year period to 2005.

The supply of new residential units fell from its peak in 1996 (16,000 units per annum) continuously to 2002. Although there was a significant increase in 2003, by 2004 completed units were still less than 10% of their peak 1996 figure.

With close to 90% of Macau's households local, or from the mainland, most demand for residential units is from the local population. There is also increasing demand from foreign workers/or investors for top end accommodation, as it has been estimated that the planned casinos and hotels will require a further 100,000 workers and that 10% to 15% of these will be affluent overseas employees.

- **Retail**

Traditionally there were two types of retail stores in Macau, the common on 'street-shop' and the rarer shopping malls. The major retail areas are Senado Square and Avenida de Almeida Riberio and Avenida de Horta Costa. While the only well established shopping mall is located near the Macau Ferry Terminal.

The overall demand for retail space has been gradually increasing as indicated by the increase in retail sales and the growing number of tourists.

- **Office**

In 2005, there were only a few 'Grade A' office buildings in Macau. These were mainly located in the Baixa de Macau and the NAPE e Aterros da Baia da Praia Grande areas.

In Baixa de Macau most properties were old-fashioned 3 to 6 storey structures. In NAPE e Aterros da Baia da Praia Grande most were built in the 1990s and are mainly high rise.

Over the past 10 years, the surplus office accommodation in Macau has been declining gradually. But any major increase in the short term will be associated with growth in gaming and tourism.

- **Hotel/leisure**

With the exception of SARS in 2003, Macau's hotels have benefited from a continuous growth in tourism since 1999. In 2004, the introduction of "Facilitated Individual Travel" increased tourist numbers by 40% to 16.67m.

In 2005 there were 74 hotels in Macau, with 9 rated 5 stars (local standard).

## **2006 Quarter 2**

Colliers found that the residential market was in a consolidation phase during the first half of 2006, but prices were rising. They also found that residential units completed in 2000 and after were increasing in price, whereas the older units were still declining. The post-2000 units had established a price premium of 33% to 40% over earlier constructions and this premium was growing.

The report noted that the date of construction was a proxy for quality of the unit. Post 2000 properties were built to higher standards, had better faculties and most were sold to locals; the beneficiaries of increasing consumer incomes.

There were also signs of growing leasing demand attributed to the expatriate community.

This tends to support the Investment Managers view that there is potentially strong demand for higher quality units from local staff with increasing earnings and aspirations.

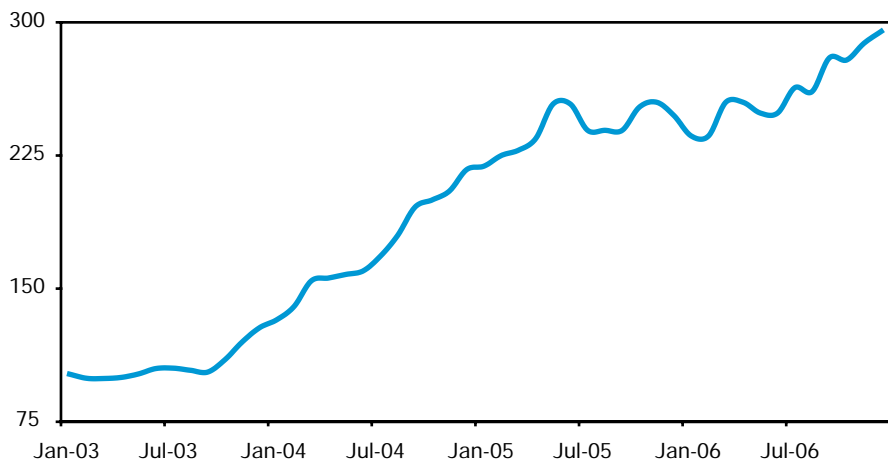
- **Retail**

The survey found little pricing difference between the malls and the on street shops ahead of the new high class units at the hotel complexes being opened. There will be 538,000 sq ft at Ponte 16 and 969,000 sq ft in The Venetian Macao. We understand that some 400 outlets have been pre let. Many of the developers expect these retail units to attract more tourists as many have been let to high end international retailer, such as Louis Vuitton.

- **Hotels and leisure**

The hotel industry benefited from increased tourism over the year. Some 960 (+8.9%) new hotel rooms had been added to the total stock over the first half of 2006, but the average hotel occupancy rate remained at approximately 73%.

## Macau District Residential Price Index



Source: Century21.com.mo

### 2006 Quarter 4

Information from the Statistics and Census Service (S&CS) indicated that in 2006, 13,593 real estate sale and purchase contracts were made, with a total value of MOP11.62bn, down 32.1% and 27.4% respectively over 2005.

In the fourth quarter of 2006, 3,701 real estate sale and purchase contracts were made, involving the transaction of 4,541 real estate units, a year-on-year increase of 8.0%. The corresponding total value of contracts in the fourth quarter went up 36.1% to MOP3.1 billion.

According to the data provided by the Finance Services Bureau, the average transaction price of residential units per square metre of usable area in 2006 was MOP10, 578, up 5.5% over 2005. The S&CS notes that there have been some quarterly statistical aberrations.

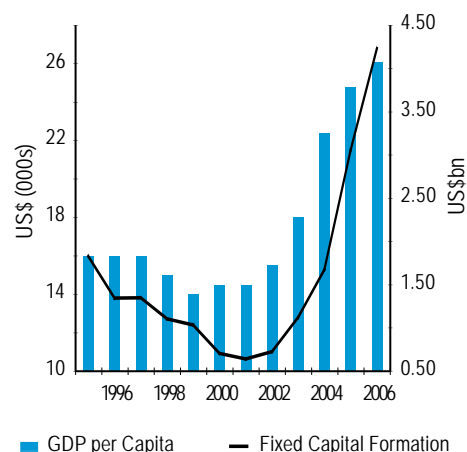
### The direction of Macau property prices and the competition

The residential market in general is moving up, helped in the short term by lower interest rates and increased consumer spending power from local Macau residents. The market has been distorted at times by the sale of some high value units, which have been acquired for ex-pats or speculative purposes.

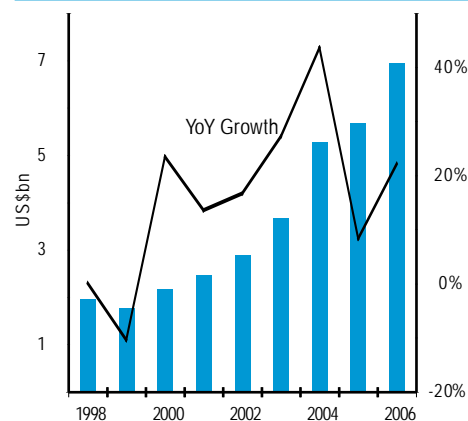
Recent data show that GDP grew by over 17% in Q3 2006 with gaming receipts ahead by 22% compared to the prior year. Gross fixed capital formation grew by 39% over the same period. The unemployment rate fell to 3.5% by the end of 2006 and median monthly income rose by over 16%. With relatively stable interest and mortgage rates, affordability indices will have improved also.

## Macau GDP per Capita

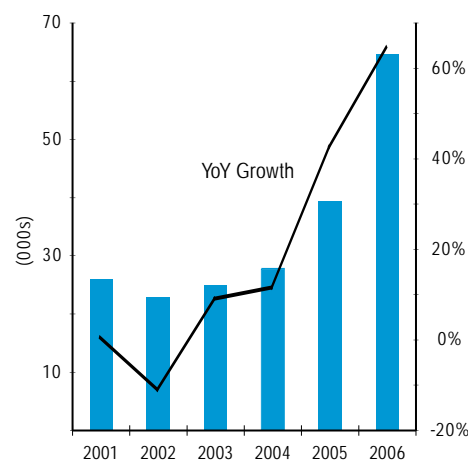
### Fixed Capital Transformation



## Macau gaming receipts



## Foreign workers in Macau



Source: DSEC, Macau

Estimates of affordability suggest that, although residential property prices have more than doubled since 2003, the debt servicing ratio (household mortgage payments to median income) was less than half that of Hong Kong's – typically (for the top 50% of households by income) some 25% compared to almost 60%.

Clearly the growth rates have been impressive recently and since the Macau government broke the local gaming monopoly of Mr Stanley Ho in 2002. We have described throughout this report our reasons for expecting further significant growth in the years to come. Published estimates suggest residential prices could rise by some 50% by 2010 with over 15,000 units of new supply required to meet demand over the same period.

The MPOF's strengths are in speed, flexibility and local knowledge. It does not compete with the international developers, constructing the main casino/hotel/conference centres. It competes with the more local developers and its access to funds and local contacts provide strong advantages in concluding the deals ahead of them. Therefore, there is sound logic in meeting the demands of local residents for higher quality units, but it must be cost efficient. The other sectors' performances have been more influenced by the long term growth prospect and individual situations. Also in the last few months an US\$80m AIM listed fund, Speymill Macau Fund, has been launched and has acquired its first residential properties. It is reporting that there is strong demand for good quality property in Macau.

### **Western Pearl River Delta Region – Zhuhai**

Macau is bordered by the District of Zhuhai, part of the Western Pearl River Delta region. Zhuhai was designated as a Special Economic Zone of China in 1980 and as such provides incentives for foreign investment such as lower tax rates and a fast track regulatory approval process.

For the last two decades the Pearl River Delta Economic Zone has been the most rapidly growing region of China. Despite having only approximately 3.2% of China's population, it accounted for 20% of GDP and 30.7% of exports in 2004.

Like many other cities in the Western Pearl River Delta region, Zhuhai is experiencing strong GDP growth. In 2004, real GDP growth was 13.8 %, while GDP per capita was US\$5,056. While this growth has not matched other cities in the Western Pearl River Delta region such as Shenzhen and Dongguan, Zhuhai has attracted a range of manufacturers and light industry, and is achieving impressive economic growth and development particularly as new infrastructure projects are planned.

With its own airport, a coastline location and natural and historic attractions, Zhuhai is a popular domestic tourist attraction. Within Zhuhai, Hengqin Island, connected to Macau by the Lotus Bridge border crossing, is one of four designated key economic development zones in Guangdong Province.

Totalling 96 square kilometres, the zone concentrates on tourism and light industry. Plans are now being drawn up for Hengqin Island to be developed as a significant tourism and leisure centre. In October 2005, the Sands Corporation announced that it had been selected by the Zhuhai Municipal Government of the PRC to proceed with master planning the development of a convention and lifestyle resort complex on Hengqin Island. This will be located less than one mile away from the Cotai Strip and will be a significant and complementary addition to the gaming facilities at the Cotai developments.

The Advisers expect that the new casino developments in Macau will employ significant numbers of Zhuhai residents, who are likely to commute to and from Macau on a daily basis. In addition, many of the domestic tourists visiting Macau arrive by road or rail having travelled through Zhuhai and the other parts of the Western Pearl River Delta region.

The Advisers believe there are opportunities to achieve attractive returns by investing in properties in Zhuhai and the surrounding area, which are expected to benefit from the economic growth in Macau as well as the growing number of visitors, both Asian and international, who may also visit the area for leisure and recreation facilities.

## The Business Model

The Directors and the Advisers believe that the development of the gaming, tourism and conference industry in Macau (currently the only legal gaming centre in China) and the strong economic growth experienced in Macau, the Western Pearl River Delta region and greater China generally, together with the financial and structural reforms which have underpinned these factors, provide an attractive environment in which to undertake property investment.

The Advisers stated that it was advantageous to launch the fund because:

- there is strong demand for quality properties due to scarcity of land and availability;
- local incomes, tourist arrivals and the population have increased pressure to increase the quality and quantity of the property stock;
- increased awareness of Macau caused by the opening of new gaming, hotel and leisure facilities, should increase interest and demand from both domestic and foreign investors in the property market;
- significant number of the new workforce may be westerners who are accustomed to modern living spaces and retail and leisure facilities which are currently in short supply;
- Macau's GDP has grown in recent years with GDP per person the fourth highest in Asia, behind Hong Kong, Singapore and Japan;
- the relative immaturity and early stage characteristics of the Macau property market provide an excellent opportunity for real estate investment and the active management of assets to increase their value and yield;
- despite the large developments taking place in Macau, there is a shortage of smaller developments. Such developments are popular among the local and expatriate market and the tourist industry in general;
- Macau has lagged behind nearby Hong Kong in terms of property values, incomes, the number of tourist visitors, transport connections and investor attention;
- there will be investment opportunities for smaller scale and complementary property developments as the large scale developments are completed and transport between Hong Kong and Macau/Zhuhai becomes easier.

In particular, the Directors believed that in the residential sector they could add value through seeking to provide domestic homebuyers, with increasing disposable incomes, better quality accommodation.

Retail and leisure should benefit from more visitors from other Asian centres such as Taiwan, Japan and Thailand. These visitors may have a longer average stay than mainland visitors and as such, may be more likely to frequent shops and leisure destinations thereby increasing demand for well-targeted retail services.

## Macau's future looks bright in the medium term, but the key to MPOF's success is its managers

There is no doubt that Macau's future is bright. However, the real key to the MPOF's success lies in the skills, expertise and contacts that the Investment Managers and Advisors have established in the local market over the years.

Experience with the Investment Manager's earlier fund and the performance of the MPOF's properties to date suggests that they have established a track record of finding undervalued projects.

Using their experience and contacts they have acquired niche properties that had underlying potential. While too small to compete with the major international contractors for the major projects, the Fund has the financial resources to act quickly and flexibly in order to acquire projects that can add value for shareholders. However, this flexibility means that there are a wide variety of scenarios that can be adopted to achieve the fund's financial objectives.

### Projects



#### Proposed developments:

- 1 Apartment block with car park targeting local middle income residents. US\$16m commitment.
- 2 Premium high rise apartment block. US\$87m commitment.
- 3 Entry level high rise apartment tower. US\$46m commitment.

Source: Sniper Capital

### Property 1

Acquisition Date	17 October 2006
Sector	Residential
Location	South Western Macau Peninsula
Current Status	Planning
Title	Freehold
Classification	Residential/ Commercial
Land Area	13,000 ft <sup>2</sup> / 1,200 m <sup>2</sup>
Acquisition Cost	US\$8.6 million
Project Development Cost	US\$7.08 million
Total Commitment	US\$15.68 million
Positioning	Local middle income residents
Proposed Development	Apartment block with car parking
Estimated Completion Date	End-2009

### Property 2

Acquisition Date	13 November 2006
Sector	Residential
Location	Central Macau Peninsula
Current Status	Under Construction
Title	Leasehold
Classification	Mixed-use
Land Area	148,000 ft <sup>2</sup> / 13,750 m <sup>2</sup>
Acquisition Cost	US\$86.58 million
Total Commitment	US\$86.58 million
Positioning	Premium Luxury
Proposed Development	High rise apartment tower in prime mixed- use project
Estimated Completion Date	Mid-2009

### Property 3

Acquisition Date	13 November 2006
Sector	Residential
Location	Northern Macau Peninsula
Current Status	Consolidating
Title	Leasehold
Classification	Residential/Retail
Land Area	20,000 ft <sup>2</sup> / 1,860 m <sup>2</sup>
Acquisition Cost	US\$20.57 million
Total Commitment	US\$45.96 million
Positioning	Entry-level
Proposed Development	High rise apartment block
Estimated Completion Date	End-2009

### MPOF's acquisitions in the 6 months to December 2006

The Investment managers have evaluated over 60 projects, including 12 in Zhuhai. Of these, 3 properties in Macau have been acquired and US\$148m has been committed to the projects which include the estimated development costs. The cash cost of investments so far has been US\$43m.

### The 3 properties

#### Property 1

Property 1 was acquired by the Company in October 2006 and is a 100% interest in a prime residential redevelopment project, located in a very well established and popular residential neighbourhood. The site is currently unoccupied and is ideally suited for a mid-rise residential development targeted towards local residents seeking to upgrade the quality of their existing accommodation and facilities. The initial architectural design and planning processes for this site are currently underway and, subject to planning approval, construction is planned to commence in 2008. It is the Company's current intention to sell all of the residential units in this project either on a pre-sale basis or on completion.

#### Property 2

Property 2 was acquired by the Company in November 2006 and comprises an entire luxury residential tower (Tower 6), forming part of a high-end mixed-use waterfront project, 'One Central' currently under construction in the heart of Macau (on-site work is currently underway on the foundations). This prestigious project is being jointly developed by two of the region's top developers; Hongkong Land and Shun Tak Holdings and includes a 400,000 square foot premier shopping complex, a 210 room 6-star Mandarin Oriental Hotel and a 50,000 square foot club house and infinity pool for the exclusive use of residents.

The residential portion of the project, 'One Central Residences' comprises seven residential towers, two of which have been sold en-bloc by the developer and the remainder released and reportedly sold out to the public. Due for completion in 2009, One Central is a development of unprecedented quality and positioning for Macau, which gives the Company immediate participation in one of its core target segments, the premium luxury residential market. It is the Company's current intention to retain ownership of Tower 6 until completion of the project.

#### Property 3

Property 3 was acquired by the Company in November 2006 and is a 100% interest in a redevelopment site located in an up-and-coming area for entry-level buyers situated close to the China border in the northern part of Macau. The surrounding area is now undergoing widespread regeneration and urban renewal as demand for entry-level residential property increases and as available land in established areas becomes increasingly scarce. The Company intends to develop the site into a multi-storey residential project designed to cater for this rapidly growing market segment for entry level purchasers. The Company is currently in active negotiations to acquire additional parcels of land in the area to consolidate its holding in this promising location, after which planning and architectural design processes will be initiated.

### Further potential acquisitions

The Advisers have identified a further 9 potential projects, with a combined value in excess of US\$220m. These are at various stages at present and include two sites identified at the time of flotation. These projects include hotel, industrial, mixed-use residential and retail land uses and are located both in Macau and Zhuhai.

The Investment Manager and Advisor still remains cautious of the middle-market residential sector across Macau and prefer to continue to focus on its core areas

- residential projects in well-established neighbourhoods;
- super luxury residential in prime locations;
- entry level residential projects;
- retail projects in well-established neighbourhoods;
- leisure/commercial projects in strategic locations;
- affordable hotel and serviced apartment projects in key locations.

### The Investment Manager's view of the market

The Manager notes the successful launch of 'One Central Residences' which Hong Kong Land has said "Eighty percent of all units were sold within a period of one month since the first bloc deal. Not only is this an impressive record in Macau property sales, but it also bears testimony to the enclave's development potential."

The developers and press are suggesting that in the after sales market units are selling at a 10% - 15% premium to original sale price.

The Manager has confirmed that its current intention is to retain this asset until completion of the project in 2009.

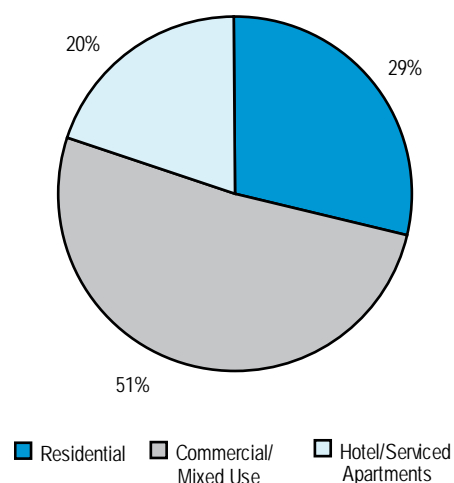
We believe that future property prices and sentiment will continue to be influenced by 'milestones' such as the following:

- 2007 (Q3) The Cotai Strip's landmark development The Venetian Macau scheduled to open;
- 2008/09 Three further mega casinos and at least 10 new hotels scheduled to open;
- 2011 Macau light rail system planned completion;
- 2015 Hong Kong – Zhuhai/Macau Bridge scheduled for completion.

In the retail sector, the influx of top international retailers should dramatically change Macau's shopping experience and further stimulate non-gaming revenues. Other non-gaming revenues are expected to grow once the Venetian Macau conference and convention centre opens in October 2007.

The office sector remains sluggish, except in prime. As a result this is a sector which is viewed with caution.

### Acquisition Pipeline (by Value)



Source: Sniper Capital

# Financials

## Interim results

MPOF raised £105m at its flotation, but its actual listing expenses were £3.98m, compared to the forecast figure of £4.1m.

## Balance sheet items

### Valuation

The 3 acquired properties were revalued by Savills as at 31 December 2006 and resulted in the value of the property portfolio increasing by 21% over the period.

The valuation was conducted in accordance with the RICS's Appraisal and Valuation Standards to calculate the Market Value of the properties in their existing state and physical condition and this provided the basis of the NAV calculations.

### The Accounting NAV per share

Under with International Financial Reporting Standards (IFRS) the 3 properties have been valued at the lower of cost and net realisable value.

The results show that the Accounting NAV per share rose 1.4% from US\$1.8001 – at the time of listing – to US\$1.8247 at the end of December 2006. Interest earned on the cash balance was the main contributor to the increase.

The gain in sterling against the US\$ at the latter part of 2006 has had a negative impact, on the Accounting NAV when expressed in £s. On this basis the Accounting NAV per share fell from £0.9621 – at the time of listing – to £0.9324, a fall of -3.1%.

### The Adjusted NAV per share

The adjusted NAV represents the properties being valued on an open market basis. The results show that the Adjusted NAV per share rose 13.8% from US\$1.8001 – at the time of listing – to US\$2.0491. This increase is almost 10x the increase achieved on the Accounting NAV basis and does look promising against the average rate of return in Macau.

The Adjusted NAV in £ terms, at the end of the period was £1.0471, representing an 8.8% increase.

Note that the cost of the properties is carried in inventories and includes a sum of US\$12.988m due to be paid out within 12 month for the remainder 30% deposit on Central One. This figure is balanced in trade and other payables. None of the other committed spend is accounted for in the balance sheet.

## Portfolio Summary

Property	Sector	Type	Positioning	Status	Acquisition Cost	Open Market Valuation	Capital Commitment
1	Residential	Redevelopment	Local Residents	Planning	US\$8.6m	US\$13.2m	US\$15.68m
2	Residential	Development	Premium Luxury	Construction	US\$86.58m	US\$101.3m	US\$86.58m
3	Residential	Development	Entry Level	Consolidating	US\$20.57m	US\$25.6m	US\$45.96m
<b>Total</b>					<b>US\$115.75m</b>	<b>US\$140.1m</b>	<b>US\$148.22</b>

\* Includes acquisition & expected redevelopment costs

Source: Sniper Capital

## Profit and loss

The historical profit and loss account had no income other than the interest on the cash held by the company. Expenses incurred relate to property development and to management and administration. These are set out in detail in the earlier fees section. There were no performance fees due at the first interim.

The administration fee at US\$200,000 was greater than we would have expected, but could contain one off expenses on launch. No tax or dividends were paid and earning per share was US\$0.0246.

## Forecast assumptions

The Macau economy and property market are moving fast and the Investment Manager and Advisors have adopted a flexible strategy to invest at the lowest cost and in such a manner as to add most value for shareholders. In the nature of things, such flexibility makes it difficult to model the scenarios in detail.

We have chosen to adopt main assumptions as follows:

- The fund is fully invested within 18 months of the launch of the fund;
- The loan to value ratio is the ratio of borrowings to shareholders' funds and we expect it generally to be around 60%;
- The first three properties are sold in 2009;
- The remaining properties are sold at the end of 2010;
- New properties are purchased at the beginning of 2011 and development begins;
- Developments will be 'significant developments' in order to attract tax exemption status (please refer to tax section), with concomitant cash flow consequences;
- None of the currently acquired sites are completed until 2009 so can not be sold or let until then,
- There will be no rights issue;
- Rentals are at 3% yield (this captures the view that an average of fifty percent of the portfolio available for rental is let at an average 6% yield) and rise at the market rate;
- Property appreciation is at the overall rate of growth set out in each of our three scenarios;
- Taxes are a mixture of stamp and lease duties plus company taxes.

The fund is reporting under International Financial Reporting Standards, so properties are accounted for at the lower of cost or net realisable value. This makes it difficult to express the revaluation effect on investment properties. Consequently, properties are carried on the balance sheet at the lower of cost or net realisable value until they are sold or leased. If they are leased they will be revalued and carried as an investment property.

We have run three scenarios, which assume that the portfolio of properties grows annually at 2% (close to the rate for the market as a whole), and at 20% and 30%. This highlights the effects of appreciation on the business model of the fund. The one exception is the case of the three revalued properties. In the second half of 2007 these are revalued at one third of the market rate of growth.

The conduct of the fund is so indeterminate *ex ante*, that we can only make broad estimating approaches to its eventual composition, not to say the incidence of and balance between receipts from sale and rental. It should also be noted that our models show linear growth, though in reality returns would be crystallised on completion. Note also that we have used conservative effective tax rates for prudence but are aware that they are high compared to the prevailing low official rates which are levied in Macau.

<b>The 2% market growth model</b>						
Year to June, US\$000	<b>1H 2007</b>	<b>2007F</b>	<b>2008F</b>	<b>2009F</b>	<b>2010F</b>	<b>2011F</b>
Loan to value	Net Cash	-0.008	0.489	0.522	-0.788	0.299
Adjusted loan to value	Net Cash	-0.007	0.415	0.492	-0.788	0.293
<b>Per share data:</b>						
<b>Net Asset Value at 10%</b>	<b>1.8001</b>	<b>1.9801</b>	<b>2.1781</b>	<b>2.3959</b>	<b>2.6355</b>	<b>2.8991</b>
<b>Net Asset value at 25%</b>	<b>1.8001</b>	<b>2.2501</b>	<b>2.8127</b>	<b>3.5158</b>	<b>4.3948</b>	<b>5.4935</b>
Accounting NAV	1.8247	1.829	1.7791	1.9278	1.8814	1.8387
Adjusted NAV at Market rate	2.0491	2.0901	2.0926	2.0453	1.8814	1.8768
<b>Performance fees</b>						
Achieved adjusted NAV per share		2.0901	2.0926	2.0453	1.8814	1.8768
Hurdle NAV		1.9801	2.1781	2.3959	2.6355	2.8991
Excess per share		0.11	-0.0855	-0.3506	-0.7541	-1.0223
<b>No. of shares in issue (m)</b>		<b>105</b>	<b>105</b>	<b>105</b>	<b>105</b>	<b>105</b>
20% of Excess		2309	-1796.1	-7362.8	-15837	-21468.5
Excess in :		Achieved	No	No	No	No

*Source: Objective Capital*

As the above table indicates, the (net) Loan to Value ratio rises quickly, but Accounting NAV declines modestly in 2008 before rising in 2009, on proceeds of disposals. The decline in 2010 is due to our assumption that the capitalised interest on the properties sold is crystallised and that some tax will be payable. The Adjusted NAV provides a more accurate picture of the fund's performance in a relatively low growth property market. It shows steady growth to 2008, as it benefits from a 2% pa growth in the property market. The declines in 2009 and 2010, particularly the latter, are due to crystallising the capitalised interest on the properties being sold. Note that both the Accounting and Adjusted NAVs are identical in 2010 as all the property gains flow through to the balance sheet. This pattern is the same for all three scenarios. In 2011 the Adjusted NAV pulls away from the Accounting NAV on revaluation of the newly acquired real estate. No performance fees are due in the period except in 2007.

## The 20% market growth model

Year to June, US\$000	1H 2007	2007F	2008F	2009F	2010F	2011F
Loan to value	Net Cash	0.034	0.651	0.709	-0.082	0.62
Adjusted loan to value	Net Cash	0.027	0.386	0.436	-0.082	0.553

### Per share:

<b>Net Asst Value at 10%</b>	<b>1.8001</b>	<b>1.9801</b>	<b>2.1781</b>	<b>2.3959</b>	<b>2.6355</b>	<b>2.8991</b>
<b>Net Asset value at 25%</b>	<b>1.8001</b>	<b>2.2501</b>	<b>2.8127</b>	<b>3.5158</b>	<b>4.3948</b>	<b>5.4935</b>
Accounting NAV	1.8247	1.7546	1.6037	2.1507	3.3766	3.1424
Adjusted NAV at Market rate	2.0491	2.2776	2.7036	3.4981	3.3766	3.5233

### Performance fees

Achieved adjusted NAV per share	2.2776	2.7036	3.4981	3.3766	3.5233
Hurdle NAV	1.9801	2.1781	2.3959	2.6355	2.8991
Excess per share	0.2975	0.5254	1.1022	0.7411	0.6242
<b>No. of shares in issue (m)</b>	<b>105</b>	<b>105</b>	<b>105</b>	<b>105</b>	<b>105</b>
20% of Excess	6247.8	11034.3	23146.2	15562.6	13108.8
Excess in :	Achieved	Achieved	Achieved	Achieved	Achieved

### Super performance fees

Achieved adjusted NAV per share	2.2776	2.7036	3.4981	3.3766	3.5233
Hurdle NAV	2.2501	2.8127	3.5158	4.3948	5.4935
Excess per share	0.0275	-0.1091	-0.0177	-1.0182	-1.970
15% of Excess	433.1	0	0	0	0
Excess in :	Achieved	No	No	No	No

Source: Objective Capital

In the 20% model the Accounting NAV declines as interest received on the cash raised decreases, but in 2009 and 2010 shows strong growth as the benefits from a strong property market show through to the balance sheet

By contrast, the Adjusted NAV benefits from steady growth – a proxy for development profit – in the Macau property market. It rises strongly over the period until 2010, where the affect of the extra burden of capitalised interest being crystallised falls. By 2011 the Adjusted NAV value stands at US\$3.5233ps, an increase of 72% over the revalued December 2006 figure. Under this scenario the Investment Managers succeed in achieving the 20% performance fee in each period over the life of the model and a super-performance fee in 2007.

### The 30% market growth model

Year to June, US\$000	1H 2007	2007F	2008F	2009F	2010F	2011F	
Loan to value	Net Cash	0.034	0.754	0.78	0.195	0.806	
Adjusted loan to value	Net Cash	0.025	0.369	0.427	0.195	0.709	
<b>Per share data:</b>							
<b>Net Asset Value at 10%</b>		<b>1.8001</b>	<b>1.9801</b>	<b>2.1781</b>	<b>2.3959</b>	<b>2.6355</b>	<b>2.8991</b>
<b>Net Asset value at 25%</b>		<b>1.8001</b>	<b>2.2501</b>	<b>2.8127</b>	<b>3.5158</b>	<b>4.3948</b>	<b>5.4935</b>
Accounting NAV		1.8247	1.7546	1.5104	2.6392	4.6778	4.1987
Adjusted NAV at Market rate		2.0491	2.4232	3.0879	4.8146	4.6778	4.7702
<b>Performance fees</b>							
Achieved adjusted NAV per share			2.4232	3.0879	4.8146	4.6778	4.7702
Hurdle NAV			1.9801	2.1781	2.3959	2.6355	2.8991
Excess per share			0.4431	0.9097	2.4187	2.0422	1.8711
<b>No. of shares in issue (m)</b>			<b>105</b>	<b>105</b>	<b>105</b>	<b>105</b>	<b>105</b>
20% of Excess			9304.6	19104.6	50792.6	42886.9	39293.1
Excess in :			Achieved	Achieved	Achieved	Achieved	Achieved
<b>Super performance fees</b>							
Achieved adjusted NAV per share			2.4232	3.0879	4.8146	4.6778	4.7702
Hurdle NAV			2.2501	2.8127	3.5158	4.3948	5.4935
Excess per share			0.1731	0.2752	1.2988	0.283	-0.7233
15% of Excess			2725.7	4334.5	20456.2	4457	0
Excess in :			Achieved	Achieved	Achieved	Achieved	No

*Source: Objective Capital*

The 30% growth model shows most clearly the affect of property appreciation and gearing. The pattern of performance is very similar to the 20% property growth model above, only the performance gains are more pronounced. The Accounting NAV declines to 2008. In 2009 and 2010 it benefits from the capture of the property disposal profits being crystallised. In year 2011 the company begins to reinvest in property, but with a much stronger balance sheet.

The Adjusted NAV rises quickly to peak in 2009 at US\$4.8146ps, an increase of 135% over December 2006. Year 2010 experiences a marginal fall due to the capitalised interest mentioned earlier and performance fees. The 2011 Adjusted NAV again begins to benefit from reinvestment in the market, to end the year at 4.7702, an increase of 133% over December 2006. This level of success triggers the 20% performance fees in all five years to 2011. The model also indicates that the Super Performance hurdle rate will be exceeded in 2007 to 2010.

### Conclusion

The Macau Property Opportunities Fund has been set up to take advantage of the favourable circumstances of the territory. The fund is geared to property appreciation; so too are the rewards for the managers. The Managers have a good track record to date at achieving their targets and, given Macau's dynamics, they should be able to out perform the market in general. This is a unique, niche fund that will gear investors to the Macau growth story, but by its very nature is difficult to model. The extra performance will come from the Manager's skills, experience and contacts. So far they have succeeded and they will need to achieve in order for them to claim their performance fees. Improving shareholder returns is very much in their interests.

## Income statement

Year to June, US\$000	1H 2007	2007F	2008F	2009F	2010F	2011F
Investment Manager's fees	-2,142	-4,642	-5,600	-7,000	-7,100	-7,500
Investment Manager's performance fees	0	-6,500	-9,300	-22,200	-15,000	-16,000
Professional fees	-25	-125	-130	-180	-140	-125
Directors' fees and expenses	-159	-290	-230	-225	-225	-225
Insurance costs	-22	-44	-46	-49	-51	-53
Audit fees	-11	-33	-35	-36	-38	-40
Administration expenses	-200	-300	-300	-315	-315	-315
Other operating expenses	-188	-338	-300	-312	-324	-337
Total	-2,747	-12,272	-15,941	-30,317	-23,194	-24,596
Capitalised interest crystallised	0	0	0	-5,000	-18,646	0
Property profits	0	0	0	108,600	223,776	0
Currency gains and losses	41	66	100	0	0	0
Net finance costs	5,331	7,495	100	0	0	0
PBT	2,584	-4,777	-15,841	73,283	181,936	-24,596
(Taxation)	0	0	0	-15,851	-53,217	0
Tax rate (%)	0.0%	0.0%	0.0%	21.6%	29.3%	0.0%
Attributable net profit	2,584	-4,777	-15,841	57,432	128,719	-24,596
Dividends	0	0	0	0	0	0
Retained earnings	2,584	-4,777	-15,841	57,432	128,719	-24,596
EPS (p)	0.02	-0.05	-0.15	0.55	1.23	-0.23
Net dividend (p)	0.00	0.00	0.00	0.00	0.00	0.00

## Cashflow

Year to June, US\$000	1H 2007	2007F	2008F	2009F	2010F	2011F
Operating profit - before excep.	-2,747	-12,272	-15,941	-30,317	-23,194	-24,596
Decrease(increase) in receivables	-38	-128	-200	-75	-70	-60
Increase(decrease) in payables	239	589	-300	-900	-800	-650
Net cash from operating activities	-2,546	-11,811	-16,441	-31,292	-24,064	-25,306

## ROI & servicing of finance

Interest received	4,723	4,723	0	0	0	0
Interest paid	0	2,139	-3,390	-8,352	-3,552	-8,352
Net cash on investment& fin.	4,723	6,862	-3,390	-8,352	-3,552	-8,352
Tax	0	0	0	-15,851	-53,217	0
Cash before investing activity	2,177	-4,949	-19,831	-55,495	-80,833	-33,658

## Investing activities

Construction and development	0	0	-83,735	-83,735	0	-60,000
Purchase of inventories	-42,522	-190,510	0	-60,608	0	-140,000
Sale of investments	0	0	0	149,454	270,000	0
Net cash outflow from inv.	-42,522	-190,510	-83,735	5,111	270,000	-200,000
Cash flow before financing	-40,345	-195,459	-103,566	-50,384	189,167	-233,658

## Financing

Bank and other loans raised	0	0	113,000	61,000	74,000	100,000
Repayment of loans	0	0			-174,000	
Other/Currency	41	312	0	0	0	0
Issue of ordinary shares	189,010	189,010	0	0	0	0
Net cash from financing	189,051	189,322	113,000	61,000	-100,000	100,000
Net increase cash & equivalents	148,706	-6,137	9,434	10,616	89,167	-133,658

**Balance sheet (IFRS)**

Year to June, US\$000	1H 2007	2007F	2008F	2009F	2010F	2011F
Inventory/Stock	56,376	204,364	288,099	282,988	0	200,000
Capitalised interest	0	0	3,390	6,742	10,294	18,646
Trade and Other receivables	575	665	865	940	1,010	1,070
Property sales gains/losses	0	0	0	108,600	332,376	332,376
Prepayment	30	0	150	200	151	153
Cash	148,706	-6,137	3,297	13,913	103,080	-30,578
Total current asset	205,687	198,892	295,801	413,383	446,911	521,667
Current liabilities						
Borrowings	0	216	0	0	0	0
Trade/Other creditors/timing	14,093	14,443	14,143	13,243	12,443	11,793
Total current liabilities	14,093	14,659	14,143	13,243	12,443	11,793
Long-term creditors						
Borrowings	0	0	113,000	174,000	74,000	174,000
Others/minorities	0	0	266	316	5,925	5,927
Total long- creditors	0	0	113,266	174,316	79,925	179,927
Net Assets	191,594	184,233	168,392	225,824	354,543	329,947
Called-up capital						
Called-up capital	1,050	1,050	1,050	1,050	1,050	1,050
Distributable reserves	187,960	187,960	187,960	187,960	187,960	187,960
Profit & loss reserve	2,584	-4,777	-20,618	36,814	165,533	140,937
Shareholders' funds	191,594	184,233	168,392	225,824	354,543	329,947

The Manager also manages the SCSF, a Cayman Islands company. This is a private fund that closed on 1 July 2005.

The investment objective of SCSF is to deliver superior returns to shareholders through the opportunistic acquisition, development and disposal of property in Macau.

The portfolio of properties owned by the SCSF is concentrated on the village of Taipa on Taipa Island.

This village is located close to the Cotai Strip where major casinos are now being constructed. The international airport, a university, football stadium, horse racetrack are also located on Taipa Island.

The village of Taipa generally consists of older style architecture in a layout similar to a small Mediterranean village and the Macau Government has indicated it would like to see the village developed and upgraded to provide an attractive tourist location, while still retaining its traditional ambience.

The equity of SCSF is currently fully invested in a portfolio of ten properties which have a maximum gross development area of c.28,000 square feet. Government approval for planned redevelopment has already been received on three sites and the approval process for the other sites is progressing.

As at 31 December 2006, SCSF had gross property assets under management of approximately US\$10.5m. Based on an independent third party valuation of SCSF's property assets on an open market basis as at 31 December 2006, SCSF showed an annualised return (after management and accrued performance fee) in excess of 35%

## Appendix: Macau Taxation

In Macau there are three principal relevant tax regimes: Complementary (Corporate Income) Tax, Property Tax and Stamp Duty. It should be noted that the Macau Government has stated its intention to review the Complementary Tax Regime and these could lead to amendments in other taxes too.

The Complementary Tax is calculated on the total income earned by Macau registered operations doing business in Macau, whether incorporated or not. Rental income from properties located in Macau is specifically excluded from the charge to Complementary Tax, this being subject to Property Tax which is discussed below.

There is no distinction made between a "revenue profit" and "capital profit." All income booked by a Macau corporate taxpayer, including property profits, are subject to the Complementary Tax which is levied at 3% to 9% for taxable profits below MOP300,000 and 12% for taxable profits over MOP300,000.

Expenses and interest charges can be offset. But the Macau Finance Bureau will normally assess to ensure that claims are reasonable.

In Macau, no withholding tax is imposed on interest payments to foreign parties and dividends paid by a Macau taxpayer entity out of its after tax profits will not be taxed again.

Property Tax is payable whether a property is rented or not. Newly built residential buildings and commercial buildings are exempt from Property Tax; the former for 4 years and the latter for 6 years. After the exemption period, the Property Tax is as follows:

- if the property is used as own residence, personal usage or business use, the Property Tax is charged at 10% plus a 5% surcharge on the liability on the official rateable rental value assessed by the Immovable Property Assessment Committee within the MFB. A deduction of up to 10% of the rateable rental value for repairs and maintenance expenses can be claimed;
- if the property is rented out, the owner will be taxed at 16%, plus a 5% surcharge on the liability, on the actual rental income based on the lease agreement submitted to the MFB. A deduction of up to 10% of the rateable rental value for repairs and maintenance expenses can be claimed.

Where a property is refurbished or redeveloped and the cost of construction is 50% or more of the fair market value of the property, it can be treated as a substantial construction. If this status is granted the property benefits from the same exemption from property tax as applies to newly built residential or commercial buildings.

Transfer of property is subject to stamp duty at 3% of the higher of sale price or the market value determined by the MFB, plus a surcharge of 5% on the stamp duty liability.

A transfer of Macau company shares or SPV resulting in the transferee holding 80% or more of the shares and that company holds Macau real properties; a 0.5% stamp duty is imposed. The transferee will also be subject to a stamp duty of 3% on the property value, plus 5% surcharge on the liability.

A rental agreement on property is subject to stamp duty of 0.5% on the total rental income stipulated in the lease and is payable by the landlord.

## **MPOF's Directors, Manager and Investment Adviser**

### **MPOF's Board of Directors**

The Board consists of five non-executive directors, as follows:

#### **David Hinde** (aged 68) (Chairman)

David Hinde qualified and practised as a solicitor for five years before moving into investment banking. Much of his career has been connected with the Far East. From 1977 to 1982, he worked in Hong Kong for Wardley Limited, part of the HSBC Group, and then returned to London for twelve years to run the international corporate finance arm of Samuel Montagu & Co. Limited, which was also part of the HSBC Group. From 1994 to 2004, he was a director of Dah Sing Financial Holdings Limited, the Hong Kong based banking and financial services group and is currently a director of Dah Sing Banking Group Ltd. He is currently Chairman of Invesco Asia Trust plc. David Hinde is a U.K. resident.

#### **Alan Clifton** (aged 59)

Alan Clifton was previously the managing director of Morley Fund Management, the asset management arm of Aviva plc, the UK's largest insurance group. He is currently chairman of JPMorgan Fleming Japanese Smaller Companies Trust plc, Principle Capital Investment Trust plc and of Schroder UK Growth Fund plc and a director of several other investment companies. He also serves as a Member of The Lord Chancellor's Strategic Investment Board. Alan Clifton is a U.K. resident.

#### **Richard Barnes** (aged 43)

Richard Barnes has over 20 years' experience in the commercial property sector and is a Member of the Royal Institution of Chartered Surveyors (RICS). He has worked at Hillier Parker (CB Richard Ellis), Vigers (GVA Grimley) and Bernard Thorpe (DTZ) and is now a principal of BDP Barnes Daniels and Partners specialising in Channel Island commercial property consultancy. He is Past President of the Jersey Group of the RICS and holds a number of directorships of listed property companies and other non-executive positions. Richard Barnes is a Jersey resident.

#### **Tim Henderson** (aged 65)

Tim Henderson joined The Hong Kong and Shanghai Banking Corporation Limited in 1958. Between 1964 and 1993 he held various executive positions in Hong Kong, Japan, Sri Lanka and Brunei, becoming the Area Manager in Brunei in 1990. In 1993, when the HSBC Head Office relocated to London, he was appointed Senior Manager, HR Planning and Policy at HSBC Holdings plc. He returned to Guernsey in 1994 to become Chief Executive of Leopold Joseph (Channel Islands) Limited, where he had overall responsibility for investment management, trust and banking services. In 1998, he was appointed Business Manager of the James Capel operation in Guernsey (subsequently HSBC Investment Management (International) Limited), from which position he retired at the end of 2000. He has a Personal Fiduciary Licence issued by the Guernsey Financial Services Commission and at present holds a number of non-executive directorships in the financial sector. He is also a Fellow of the Institute of Directors. Tim Henderson is a Guernsey resident.

## **Appendix: Management**

**Thomas Ashworth** (aged 40)

Thomas Ashworth is a director of the MPOF, as well as Director and Principal of Sniper Capital Limited and Sniper Capital Management Limited. He has 19 years experience in international financial markets and investment management, 11 of which have been in Asia, as well as being an experienced private property investor in the United Kingdom and Asia.

Thomas Ashworth spent 10 years at HSBC Securities (formerly James Capel & Co), specialising in equity derivative products. He headed up UK Derivatives department for three years in London before moving out to Asia to establish an Asian equity derivatives department for the Group. He later joined Morgan Stanley in Hong Kong to develop their equity derivative business.

In 2000 he left Morgan Stanley to co-found EGS, a new brokerage business focused on serving global hedge funds. At EGS, he managed the Asia Pacific operations before it was taken over by Kim Eng Securities in 2003. He is a director of a pan-Asia hedge fund, Brooke Capital Limited.

He formed the Manager and the Investment Adviser with Martin Tacon in 2004 and 2005 respectively to provide tailored vehicles for Macau property investment and real estate management ventures. At the Manager he is primarily responsible for sourcing and evaluating portfolio acquisitions, structuring financing and capital raising operations, compliance and investor liaison.

In the last three years he has established an extensive local network in Macau where he has undertaken several property-related ventures, involving widespread contact with property professionals, Government departments and Macau-based financial institutions and professionals.

He is a British national and a permanent resident of both Hong Kong and Macau.

## The Manager – Sniper Capital Limited

Sniper Capital Limited is the Manager of the MPOF. It also manages the South China Sniper Fund details of which are set out in Appendix 2.

Sniper Capital Limited's principals, Thomas Ashworth and Martin Tacon, have a combined 25 years experience of doing business in Asia, including identifying market opportunities, starting up new businesses and delivering value for shareholders and owners.

### Key individuals

**Thomas Ashworth** *(Please refer to MPOF's Board of Directors' section for more details)*

**Martin Tacon** (aged 42), director of the Manager, is an experienced real estate professional, having been actively involved in transaction driven real estate investment and finance for 21 years, 19 of which have been in Asia. He has operated in many Asian markets, and for the last three years has focused on Macau and the surrounding area.

During his career he has gained extensive experience with real estate funds, investment advisers, property developers and professional debt and equity investors and maintains a wide range of contacts and relationships throughout the Asian property industry.

He has hands-on experience in the real estate sector including feasibility analysis, concept design, development and construction, leasing, disposal as well as real estate related corporate finance.

He has an established record of identifying and capitalising on new real estate and other investment opportunities in Asia. He helped to build a pipeline in Asian real estate structured transactions for Zurich Re group and as an investment banker at Credit Suisse First Boston ("CSFB") was responsible for coverage of the real estate sector. He also helped to build a Pan-Asian equity research business.

Prior to CSFB he was an Asian property sector analyst for HSBC Securities (then James Capel & Co), and prior to this he was involved in the establishment of a real estate consultancy business in Indonesia for Hong Kong based Vigers International. He has raised capital for private real estate investment vehicles in Asia and helped raise capital for the hedge fund, Lynx Arbitrage, which he co-founded in 2002 and where he is a non-executive director. In addition to his work in Asia, he has been a director of a private UK investment property company, Melbobby Limited, for the past 15 years.

As a director of the Manager he is primarily responsible for evaluating and executing appropriate portfolio acquisitions and overseeing the development, positioning and management of the Company's assets.

He is a Professional Member of the Royal Institution of Chartered Surveyors, has an MA (Hons) Economics from the University of Edinburgh, Scotland, and an M.Phil (Hons) Land Management from the University of Reading, England.

He is a British national and a permanent resident of Hong Kong.

## **The Investment Advisor – Sniper Capital Management Limited**

Sniper Capital Management Limited is a private limited company incorporated in Macau. It is wholly owned by the Principals, has been engaged by the Manager and the Company to act as Investment Adviser pursuant to the Investment Advisory Agreement. Sniper Capital Management Limited's fees are the responsibility of Sniper Capital Limited.

The executive directors of the Investment Adviser are Martin Tacon and Thomas Ashworth. In addition, the Investment Adviser's senior personnel and advisers comprise experienced property investors and Asian and Macanese property professionals. All have good local connections and extensive experience of the Asian Property market which should enable the Investment Adviser to identify opportunities early and deliver efficient execution.

### **Key individuals**

***Martin Tacon*** – please refer to Sniper Capital Limited section for more details.

***Thomas Ashworth*** – please refer to Sniper Capital Limited section for more details.

***Joao Carlos de Jesus Alfonso***, (aged 37), is an associate director of the Investment Adviser where he is primarily responsible for sourcing appropriate portfolio acquisitions, liaising with government departments and assisting in the development, positioning and management of property assets.

He started his professional career in 1988 with the Macau Government where he spent eight years working in a range of administrative departments. This period allowed him to develop an extensive network of government contacts.

In 1994 he established the MIRR Real Estate Company in Macau. He has been actively involved in a wide range of local residential and commercial property development projects in the last decade and has a good knowledge of local market conditions and influences. He has worked with the directors of the Manager on Macau real estate related activities for the past two years.

He is a permanent resident of Macau and fluent in English, Portuguese, Cantonese and Mandarin.

We are pleased to bring you this report on **Macau Property Opportunities Fund**.



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Gabriel Didham, CFA  
Objective Capital

#### **Dermot Carr**

Dermot has over 20 years experience on both the buy and sell sides including covering both gambling and property stocks. He was previously Research Director for Tilney Investments and Extel rated. Dermot originally trained in Town Planning and property development.

#### **Andy Hartwill**

Andy was for many years UK & Global Strategist at SG Hambros, latterly Soc Gen Securities. Prior to this he was UK and European Strategist for Paribas, and Head of Research at Capital House and Spencer Thornton. He is a regularly guest on Bloomberg and CNBC.

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