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## **SHIMAO PROPERTY HOLDINGS LIMITED**

### **世茂房地產控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 813)**

## **GENERAL MANDATE TO CONSIDER THE ENGAGEMENT OF MORGAN STANLEY**

### **CONTINUING CONNECTED TRANSACTION**

On 30 June 2008, the Company entered into the Mandate Agreement with MSAL setting out the terms and conditions pursuant to which the Company can consider and, if thought appropriate, engage Morgan Stanley as a financial adviser, bookrunner, joint global coordinator, sponsor, placement agent, arranger, lender or underwriter in respect of the transactions set out in the Mandate Agreement.

The transaction contemplated in the Mandate Agreement constitutes a non-exempt continuing connected transaction under Rule 14A.35 of the Listing Rules and will require the approval of the Independent Shareholders. Such approval will allow the Company to consider and, if thought appropriate, engage Morgan Stanley, subject to the terms and conditions of the Mandate Agreement, as a financial adviser, bookrunner, joint global coordinator, sponsor, placement agent, arranger, lender or underwriter in respect of the transactions set out in the Mandate Agreement, notwithstanding that Morgan Stanley has been deemed a “connected person” of the Company by the Stock Exchange as a result of an investment by MSREF VI in the Shimao Subsidiary.

The Company has obtained from the Stock Exchange a waiver from strict compliance with the announcement and independent shareholders’ approval requirements under Rule 14A.17 of the Listing Rules in respect of the possible issue of securities to Morgan Stanley pursuant to securities underwriting arrangements for the Mandate Period.

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| <p>A circular containing, among others, further details of the Mandate Agreement, the advice of the IFA to the Independent Board Committee and the Independent Shareholders of the Company, the recommendation of the Independent Board Committee and a notice convening the EGM, will be despatched to the Shareholders as soon as practicable after the date of this announcement.</p> |
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## **INTRODUCTION**

The Company is principally engaged in large-scale integrated property development projects, property investment and hotel operation in the PRC.

On 30 June 2008, the Company entered into the Mandate Agreement with MSAL setting out the terms and conditions pursuant to which the Company can consider and, if thought appropriate, engage Morgan Stanley as a financial adviser, bookrunner, joint global coordinator, sponsor, placement agent, arranger, lender or underwriter in respect of the transactions set out in the Mandate Agreement.

The transaction contemplated in the Mandate Agreement constitutes a non-exempt continuing connected transaction under Rule 14A.35 of the Listing Rules and will require the approval of the Independent Shareholders. Such approval will allow the Company to consider and, if thought appropriate, engage Morgan Stanley, subject to the terms and conditions of the Mandate Agreement, which are described below, as a financial adviser, bookrunner, joint global coordinator, sponsor, placement agent, arranger, lender or underwriter in respect of the transactions set out in the Mandate Agreement, notwithstanding that Morgan Stanley has been deemed a “connected person” of the Company by the Stock Exchange as a result of an investment by MSREF VI in the Shimao Subsidiary, details of which are summarised in the section headed “Morgan Stanley Deemed a Connected Person” below.

The Company has obtained from the Stock Exchange a waiver from strict compliance with the announcement and independent shareholders’ approval requirements under Rule 14A.17 of the Listing Rules in respect of the possible issue of securities to Morgan Stanley pursuant to securities underwriting arrangements for the Mandate Period.

## **MORGAN STANLEY DEEMED A CONNECTED PERSON**

In June 2007, MSREF VI, through an indirect subsidiary, Mount Profit, acquired a 29.99% equity interest, but a voting power of less than 10%, in the Shimao Subsidiary, one out of approximately 34 property development projects of the Company. The Stock Exchange exercised its discretion to deem MSREF VI and hence Morgan Stanley to be a connected person of Shimao by virtue of its considerable influence in the Shimao Subsidiary as shown by Mount Profit’s veto power in certain reserved matters at the Shimao Subsidiary level.

In July 2006, MSAL acted as sponsor and bookrunner, in addition to another investment bank, for the successful listing of Shimao. Since its listing, Shimao had undertaken the following transactions with MSAL acting as either underwriter or adviser:

- US\$600 million senior notes offering in November 2006, in which Morgan Stanley acted as joint lead manager and joint bookrunner (transaction completed);
- US\$500 million follow-on offering in May 2007, in which Morgan Stanley acted as sole book runner (transaction completed); and
- RMB10.1 billion asset injection into an A-shares listed company in exchange for a controlling stake in the A-shares listed company in October 2007, in which Morgan Stanley acted as the financial adviser (transaction announced on 22 October 2007 and completion is pending regulatory approval in the PRC).

As a licensed corporation under the SFO, MSAL is subject to the “Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission” and when it carries on the business of advising on corporate finance, by the “Corporate Finance Adviser Code of Conduct”.

As a listed issuer of substantial capitalisation, Shimao conducts corporate finance activities in the ordinary and usual course of its business for various reasons, including raising funds for capital expenditure and efficient management of capital and organisational structure.

As Morgan Stanley has a successful track record of advising Shimao, Shimao does not wish to be precluded from engaging Morgan Stanley as financial adviser, bookrunner, joint global coordinator, sponsor, placement agent, arranger, lender or underwriter in respect of its corporate finance activities as a consequence of Morgan Stanley being deemed to be a connected person of Shimao in the circumstances described above.

## **MANDATE AGREEMENT BETWEEN SHIMAO AND MSAL**

### **Parties to the Mandate Agreement**

The parties to the Mandate Agreement are the Company and MSAL. The Mandate Agreement does not constitute a mandate or engagement in favour of Morgan Stanley nor does it oblige Shimao to engage Morgan Stanley for any future transaction. The Mandate Agreement also does not constitute a commitment by Morgan Stanley to act for the Company.

### **Condition**

The effectiveness of the Mandate Agreement is conditional upon the approval of the Independent Shareholders being obtained at the EGM.

### **Duration of the Mandate Agreement**

The Mandate Agreement is for a period commencing on the Commencement Date and ending on 31 December 2010. Thereafter, the Mandate Agreement may be renewed, subject to agreement of the parties, the approval of the Independent Shareholders and compliance with the applicable requirements under the Listing Rules.

### **Remuneration and Annual Caps**

Advisory fees or underwriting fees or commissions, as the case may be, will be agreed at the time of each engagement of Morgan Stanley, but subject to the following proposed caps, to be approved by the Independent Shareholders. The proposed caps comprise only potential actual fees or commission received in each year and not the value of the relevant underlying transaction.

|                             | <b>For the<br/>period from the<br/>Commencement<br/>Date to<br/>31 December<br/>2008</b> | <b>For the<br/>year ended<br/>31 December<br/>2009</b> | <b>For the<br/>year ended<br/>31 December<br/>2010</b> |
|-----------------------------|--|--|--|
| Advisory fees cap           | US\$20 million   | US\$20 million   | US\$20 million   |
| Underwriting commission cap | US\$40 million   | US\$40 million   | US\$40 million   |

The basis for determining the underwriting commission cap is the amount of capital raising the Company is expected to carry out for the Mandate Period and applying the standard underwriting commission rate of 3.5% to such amount. The basis for determining the advisory fees cap is the amount of expected investment banking activities the Company is likely to undertake in future years. Given the large scale and capital intensive nature of the Company's business, it is expected that the Company will require a large amount of investment banking advice and products (such as corporate finance, syndication financing and mergers and acquisitions advice). Depending on the nature and the complexity of the advice and products, the advisory fee may not always be strictly calculated based on deal size and such fee will invariably be determined on a case by case basis. The amount of the advisory fees cap represents the Company's best estimate of its expected amount of advisory fees expenses based on its expected level of investment banking activities.

### **Potential Transactions Covered by the Mandate Agreement**

The transactions set out in this section entitled "Potential Transactions Covered by the Mandate Agreement" are the only transactions in relation to which Morgan Stanley may be engaged as financial adviser, bookrunner, joint global coordinator, sponsor, placement agent, arranger, lender or underwriter (as the case may be) pursuant to the Mandate Agreement. Each transaction will be subject to one or more of the following: (i) advisory fees cap (as described in relation to the relevant transaction below); (ii) underwriting commission cap (as described in relation to the relevant transaction below); and (iii) uncapped indemnity (as described in the section entitled "Indemnity to be Provided by Shimao" below).

#### *Fixed income securities transactions, including bond issues, of the Shimao Group*

The fees payable to Morgan Stanley by the Company in respect of Morgan Stanley's engagement as joint global coordinator, bookrunner, underwriter or arranger will be subject to the annual underwriting commission cap referred to above; and/or the fees payable in respect of Morgan Stanley's engagement as a financial adviser will be subject to the annual advisory fees cap referred to above.

#### *Equity shares and equity-linked securities transactions, including IPOs, spin-off listings, follow-on offerings, convertible bonds and share buybacks, of the Shimao Group*

In the event that Morgan Stanley is selected as underwriter or placement agent and the transaction ultimately requires Morgan Stanley to underwrite or take up such shares or other securities, the transaction will constitute a connected transaction of

the Company under Rule 14A.13(1)(a) of the Listing Rules. Such a connected transaction will require compliance with the reporting, announcement and/or independent shareholders approval requirements unless the transaction is otherwise exempt under Rule 14A.31(3) of the Listing Rules.

Shimao has sought and obtained from the Stock Exchange a waiver from strict compliance with the announcement and independent shareholders' approval requirements under Rule 14A.17 of the Listing Rules in respect of the possible issue of securities to Morgan Stanley pursuant to securities underwriting arrangements for the Mandate Period.

The fees payable to Morgan Stanley by the Company in respect of the transactions described in this section will be capped as follows:

- (i) IPOs, follow-on offerings and convertible bonds — The fees payable in respect of Morgan Stanley's engagement as bookrunner, joint global coordinator, sponsor, underwriter or placement agent will be subject to the annual underwriting commission cap referred to above;
- (ii) Spin-off listings — The fees payable in respect of Morgan Stanley's engagement as bookrunner, joint global coordinator, sponsor, underwriter or placement agent in respect of a spin-off listing will be subject to the annual underwriting commission cap referred to above; and the fees payable in respect of Morgan Stanley's engagement as a financial adviser will be subject to the annual advisory fees cap referred to above;
- (iii) Share buybacks — In respect of Morgan Stanley's engagement as broker, Morgan Stanley will be entitled to be paid a brokerage fee which will be subject to the annual underwriting cap referred to above.

*Investment banking services, including corporate finance, structuring, syndication financing, mergers and acquisitions advice and services*

If Morgan Stanley extends any financing to the Company, such transaction will be a connected transaction pursuant to Rule 14A.13(2)(b)(i) of the Listing Rules. Under Rule 14A.65(4) of the Listing Rules, the connected transaction will be exempt from the reporting, announcement and independent shareholders' approval requirements if the loan is on normal commercial terms (or better to the Company) and no security over the assets of the Company is granted in respect of the financial assistance.

The fees payable in respect of Morgan Stanley's engagement as a financial adviser, arranger or lender in respect of the transactions described in this section would be subject to the annual advisory fees cap.

## **Indemnity to be Provided by Shimao**

Any engagement of Morgan Stanley, in respect of the transactions described in the section entitled “Potential Transactions Covered by the Mandate Agreement” above, will include an indemnity to the underwriter/financial adviser. Such an indemnity would be in accordance with local and international market practice and under normal commercial terms. With respect to advisory services, the indemnity would cover any losses, claims, damages or liabilities related to, arising out of or in connection with the relevant engagement. With respect to underwriting services, the indemnity would cover any losses, claims, damages or liabilities related to, arising out of or in connection with the underwriting agreement, material misstatements or omissions in the disclosure document and would also typically cover breaches of representations and warranties by the issuer. In each case, the indemnity, in accordance with local and international market practice and under normal commercial terms, will be uncapped. In respect of investment banking advisory services, the Company shall not be responsible for any losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted primarily from the gross negligence or bad faith of Morgan Stanley. In respect of all other services (for example, capital market engagements such as underwriting and placings), any carve out of the Company’s liability, and the terms of such carve out, under the relevant indemnity for such services shall depend on the nature of the engagement, local and international market practice and normal commercial terms relating to such engagement and negotiations between the relevant parties at the time of the engagement.

The provision of such an indemnity to Morgan Stanley will constitute the provision of financial assistance by the Company to a connected person and will therefore constitute a connected transaction pursuant to Rule 14A.13(3) of the Listing Rules. As any indemnity to be provided will be uncapped, there is no applicable exemption available from the reporting, announcement and shareholder approval requirements under Chapter 14A of the Listing Rules. To address this issue, the Company proposes to seek approval from the Independent Shareholders for the provision of such uncapped indemnities in the event Morgan Stanley is engaged in respect of the transactions described in the section entitled “Potential Transactions Covered by the Mandate Agreement” above.

## **Other Terms of Engagement**

All other terms of engagement of Morgan Stanley in respect of the transactions described in the section entitled “Potential Transactions Covered by the Mandate Agreement” above pursuant to the Mandate Agreement will be on normal commercial terms and in the ordinary and usual course of business, having regard to the nature of the services to be provided and subject to the terms, including as to compensation and indemnification, of definitive agreements to be entered into between the relevant parties, which terms shall not conflict with the provisions of the Mandate Agreement.



## **INDEPENDENT NON-EXECUTIVE DIRECTORS APPROVAL AND ANNUAL AUDITORS REVIEW**

Each underwriting mandate in favour of Morgan Stanley will, at the relevant time, be subject to the prior consent of a majority of the independent non-executive directors of Shimao, who shall be satisfied that the Company has taken reasonable steps to select underwriters based on an adequate competitive bidding process and that the underwriting transaction with Morgan Stanley is on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

In addition, if an underwriting mandate is awarded to Morgan Stanley, the independent non-executive directors of Shimao must confirm their view that the Company has taken reasonable steps to select underwriters based on an adequate competitive bidding process in the relevant annual report and accounts of the Company.

The proposed arrangement will also be subject to annual review by the independent non-executive directors of Shimao in accordance with Rule 14A.37 of the Listing Rules and annual confirmation by the auditors of Shimao in accordance Rule 14A.38 of the Listing Rules.

## **REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTION**

The Directors consider that the Mandate Agreement will be beneficial to the Shareholders and the Company as it will allow the Company to consider engaging Morgan Stanley without the added burden of delay and the potential risk of premature disclosure of price sensitive information consequent on having to obtain deal-specific Independent Shareholder approval for the engagement of Morgan Stanley as a financial adviser, bookrunner, joint global coordinator, sponsor, placement agent, arranger, lender or underwriter for future transactions involving the Company.

The Directors consider that the terms of the Mandate Agreement are fair and reasonable and in the interests of the Shareholders as a whole and in the ordinary and usual course of the business of the Shimao Group and will be beneficial to the Company and the Shareholders as a whole.

## **INDEPENDENT BOARD COMMITTEE AND THE IFA**

The Independent Board Committee has been formed to advise the Independent Shareholders as to whether the terms of the Mandate Agreement are fair and reasonable and whether the Mandate Agreement is in the interests of the Company and the Shareholders as a whole.



The IFA has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the Mandate Agreement are fair and reasonable and whether the Mandate Agreement is in the interests of the Company and the Shareholders as a whole.

## **RECOMMENDATION**

The Directors consider that the terms of the Mandate Agreement are fair and reasonable and in the interests of the Company and Shareholders as a whole. The Directors recommend that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the EGM.

To the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries, none of the Independent Shareholders has a material interest in the continuing connected transaction who will be required to abstain from voting at the EGM. Morgan Stanley does not hold any shares as principal in Shimao and therefore will not be voting at the EGM.

## **DESPATCH OF CIRCULAR**

The circular containing, among others, further details of the Mandate Agreement, the advice of the IFA to the Independent Board Committee and the Independent Shareholders of the Company, the recommendation of the Independent Board Committee and a notice convening the EGM, will be despatched to the Shareholders as soon as practicable after the date of this announcement.

## **DEFINITIONS**

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

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| “Articles”               | the articles of association of the Company  |
| “associate”              | has the meaning ascribed to it under the Listing Rules  |
| “Board”                  | the board of Directors  |
| “Commencement Date”      | the date the resolution to be proposed at the EGM is approved by the Independent Shareholders   |
| “Company” or<br>“Shimao” | Shimao Property Holdings Limited (stock code: 813), a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the main board of the Stock Exchange |

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| “Director(s)”                 | the director(s) of the Company   |
| “EGM”                         | the extraordinary general meeting of the Company to consider and, if thought fit, approve the continuing connected transaction contemplated in the Mandate Agreement   |
| “Hong Kong”                   | the Hong Kong Special Administrative Region of the PRC   |
| “IFA”                         | CIMB-GK Securities (HK) Limited, a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities   |
| “Independent Board Committee” | a committee of the Board comprising Ms. Kan Lai Kuen, Alice, Mr. Lu Hong Bing, Mr. Gu Yunchang and Mr. Lam Ching Kam, being the independent non-executive directors of the Company   |
| “Independent Shareholders”    | the Shareholders   |
| “Listing Rules”               | the Rules Governing the Listing of Securities on the Stock Exchange  |
| “Mandate Agreement”           | the mandate agreement dated 30 June 2008 between Shimao and MSAL   |
| “Mandate Period”              | the period commencing on the Commencement Date and ending on 31 December 2010  |
| “Mount Profit”                | Mount Profit Investments Limited   |
| “Morgan Stanley”              | MSAL, its subsidiaries or associates   |
| “MSAL”                        | Morgan Stanley Asia Limited, a licensed corporation under the SFO, licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities |

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| “MSREF VI”          | Morgan Stanley Real Estate Fund VI, approximately 20% owned by Morgan Stanley  |
| “PRC”               | the People’s Republic of China   |
| “RMB”               | Renminbi, the lawful currency of the PRC   |
| “SFO”               | the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| “Shareholders”      | shareholders of the Company  |
| “Shimao Group”      | the Company, its subsidiaries and associates   |
| “Shimao Subsidiary” | 武漢世茂錦繡長江房地產開發有限公司 (Wuhan Shimao Splendid River Real Estate Development Co., Ltd.*)   |
| “Stock Exchange”    | The Stock Exchange of Hong Kong Limited  |
| “subsidiary”        | has the meaning ascribed to it under the Listing Rules   |
| “US\$”              | United States dollars, the lawful currency of the United States  |
| “United States”     | the United States of America   |

*\* Denotes English translation of the name of the company and is provided for identification only.*

By order of the Board  
**Shimao Property Holdings Limited**  
**Lam Yee Mei, Katherine**  
*Company Secretary*

Hong Kong, 30 June 2008

*As at the date of this announcement, the executive directors are Mr. Hui Wing Mau (Chairman), Mr. Hui Sai Tan, Jason (Vice Chairman), Ms. Yao Li, Mr. Ip Wai Shing, Mr. Tang Ping Fai and Mr. Tung Chi Shing and the independent non-executive directors are Ms. Kan Lai Kuen, Alice, Mr. Lu Hong Bing, Mr. Gu Yunchang and Mr. Lam Ching Kam.*