SHIMAO 世茂房地產
SHIMAO PROPERTY HOLDINGS LIMITED

Shimao Announces 2016 Interim Results
Revenue and Profit Attributable to Shareholders Reached RMB30.0 Billion and RMB3.0 Billion Respectively

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Inventory Clearance Has Been Effective
Financing Cost is Further Reduced

Financial Highlights

	For the 6 months ended 30 June	
RMB(Million)	**2016**	2015
Revenue	**30,016**	29,193
Gross Profit	**8,467**	8,962
Gross Profit Margin	**28.2%**	30.7%
Profit attributable to equity holders	**3,028**	3,559
Profit from core business attributable to equity holders (excluding fair value gains of investment properties)	**3,502**	3,487

(30 August 2016, Hong Kong) – Shimao Property Holdings Limited ("Shimao Property" or "the Group"; Stock Code: 813.HK) is pleased to announce its interim results for 6 months ended 30 June 2016.

In the first half of 2016, the Group achieved recognized revenue of RMB30.016 billion, representing a year-on-year increase of 2.8%. Gross profit and gross profit margin were RMB8.467 billion and 28.2% respectively. Profit attributable to shareholders was RMB3.028 billion. To demonstrate its appreciation for the Group's shareholders' unstinting support, the board declared the payment of an interim dividend of HK26 cents per share and a special dividend of HK6 cents per share, totalling HK32 cents per share (2015 interim: HK30 cents).

Commenting on the Group's interim results, Mr. Hui Wing Mau, Chairman of Shimao Property, said, "The real estate market continued to rebound nationwide and started a new upward trend in the first half of 2016, on the back of the positive drive from government policies and the unleashing of the cumulative demand. For the first half of the year, property prices on a nationwide basis demonstrated an upward trend in general. In second- and third-tier cities, the rate of year-on-year growth in property prices continued to increase, and the growth rate in some second-tier cities already exceeded that in first-tier cities such as Beijing and Guangzhou. However, in some third- and fourth-tier cities, the real estate market remained sluggish due to high inventory and weak demand. The divergent market performance rendered it a normal industry practice to have differing policies being applied in different cities. As such, in the first half of the year, the Group continued to adjust the timing and structure of supply by strictly adhering to the principle of "sales-based production" in third and fourth-tier cities and focusing on first- and second-tier cities. "

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Sales Performance

At the beginning of 2016, the Group set its annual contracted sales target at RMB67.0 billion. With record-high monthly contracted sales achieved in June, the Group realized contracted sales of RMB34.46 billion in the first half of the year, representing approximately 51.4% of the annual target. The total sales area amounted to 2,428,000 sq.m., with an average selling price of RMB14,192 per sq.m. during the period, up from RMB12,011 per sq.m. in the corresponding period in 2015. This has laid a good foundation for the Group's stable growth in profit margin in future.

In terms of cities, the sales in Nanjing were more than RMB5.0 billion, while the sales in Beijing, Xiamen and Hangzhou were more than RMB1.5 billion. In terms of projects, the sales of Nanjing Shimao Bund New City, Xiamen Xiang'an project, Nanjing Pukou Royal Real and Nanjing Straits City were RMB2.657 billion, RMB1.312 billion, RMB1.190 billion and RMB1.003 billion, respectively. In addition, the prices of the above projects were upward adjusted in the first half of the year by more than 30% in general, some of which even increased by 65%. Both sales volume and prices increased and the Group performed well in the market.

In respect of inventory clearance, the inventory sales of the Group in the first half of the year were RMB21.9 billion, representing an increase of RMB7.9 billion from the corresponding period of the previous year. Inventory-to-sales ratio increased by 19%. With respect of inventory sales strategy, pricing was strategically adjusted to boost the sales of inventory in third- and fourth-tier cities with relatively low demand, with particular focus on pricing adjustments for longer aged inventories. As a result, a strong business foundation was laid by optimizing the inventory structure, increasing the cash collection ratio and enhancing the competitiveness. As of 30 June 2016, inventories of first- and second-tier cities accounted for 69%, up 6% from the beginning of the year. Inventory clearance in third- and fourth-tier cities has been effective.

Based on our judgment on the future market trend, the Group has enlarged the supply in first- and second-tier cities of higher gross profit margin and lower risk of high inventory since last year. The supply focused on first- and second-tier cities while the supply in third- and fourth tier cities was controlled strictly in accordance with the principle of "sale-based production" to avoid high inventory of low margin properties. The Group will increase its supply to first- and pre-first-tier cities to 54% of total value in the second half of the year. Following the implementation of product standardization and the addition of attractions on products, supporting facilities as well as education, the competitiveness and the premium pricing of the Group's projects were improved. Addressing customers' mindset, the Group established a system which supported the particular needs of customers, radically enhanced the land nature and precisely focused on themes of community life, which constituted key selling points apart from the layout of units. The Group is confident that, with its continuous efforts to meet the market's demand, its performance will be better in the second half of the year.

Prudent Replenishment of Land Reserves

In the first half of 2016, there was a trend of developers re-steering their focus on first- and second-tier cities, causing fierce competition for land resources, soaring land prices and in turn many cases of "land king lots" transacted at exceptionally high prices, and thus continually squeezing future gross profit of the industry. The Group upheld its prudent strategy and adopted a more cautious approach in replenishing land reserves. In the first half of 2016, the Group acquired land reserves of 1.10 million sq.m. (before interests) in Fuzhou, Yinchuan, Beijing, Nanjing and Wuhan. Currently, Shimao Property has 116 projects with a total area of 31.85 million sq.m. (attributable interests) of quality land in 41 cities in China. In particular, the Group entered into an agreement with another developer to acquire Beijing Shangzhuang project, which transaction is expected to be completed before April 2017. This enables the Group to acquire quality land at reasonable costs, which effectively reduces the capital requirement and cost of project operation, and thereby alleviates the financial pressure on the Group. Meanwhile, the Group also acquired the Jianye project by way of public auction in Nanjing, at RMB16,296 per sq.m. of floor area, for the development of commercial, office and residential projects, which explain the lower land costs compared to land for sole residential development.

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<u>Promoting Light Asset Operation</u>

From the opening of MiniMax Hotel at the end of 2014 to the launch of the 52+ Mini Mall series at the end of 2015, the Group has been launching new products in a systematic and orderly manner. Mini Hotel and Mini Mall, which are the two major projects of the "Mini" series, are known for their compact scale which distinguishes them from traditional luxury hotels and large-scale shopping malls. As the Group's brands under the asset-light strategy, they offer customized products to address specific needs. They are able to enter or exit the market nimbly and their products can be replicated easily. The "Mini" series is the Group's key commercial product. With the operation of new business models including the "Mini" series, the Group will be able to attract more investors and lower the proportion of internal capital investment in order to increase the return on assets held by the Group. Moreover, in July, Shimao Hotels and Resorts entered into entrusted management arrangements for the first hotel – MiniMax Hotel Linyi Binhe in respect of the export of hotel management, and the hotel is expected to officially commence operation in the middle of 2017. This also signifies the implementation of the "light asset" strategic transformation of Shimao Hotels and Resorts.

Business Review

<u>Property Development</u>

1) Recognized Sales Revenue

The Group generates its revenue primarily from property development, property investment and hotel operations. As at 30 June 2016, revenue of the Group reached RMB30.016 billion, an increase of 2.8% when compared to RMB29.193 billion for the corresponding period in 2015. During the period, revenue from property sales amounted to RMB28.589 billion, accounting for 95.2% of the total revenue and representing an increase of 3.1% over the corresponding period in 2015. The average recognized selling price increased by 9.2% to RMB12,108 per sq.m. in the first half of 2016, from RMB11,092 per sq.m. for the corresponding period in 2015. The number of projects recognized by the Group in the first half of 2016 totalled 66, higher than the 59 projects recognized in the corresponding period in 2015, of which Nanjing Straits City achieved great results with recognized sales revenue of RMB3.937 billion; Nanjing Shimao Bund New City, the first runner-up, with recognized sales revenue of RMB1.680 billion; and Wuhan Shimao Splendid River, the second runner-up, with recognized sales revenue of RMB1.541 billion.

2) Steady Sales Growth

With respect to property sales, the Group's contracted sales amounted to RMB34.46 billion in the first half of 2016, representing 51.4% of its annual target. The aggregate sales area reached 2,428,000 sq.m., with an average selling price of RMB14,192 per sq.m.. Benefited from adequate liquidity and easing of the regulatory policies, in the first half of 2016, the Group achieved satisfactory sales and its inventory clearance work progressed well as expected. In terms of overall sales results, the performance of first-tier cities maintained strong. Attributable to the meticulous regional marketing plans and customized sales strategies based on local characteristics, certain second- and third-tier cities also recorded improvement in sales. Looking forward to the second half of 2016, the Group will launch saleable areas of approximately 3.73 million sq.m.. Together with the existing saleable areas of approximately 3.14 million sq.m. as at 30 June 2016, the Group's total saleable areas in the second half of 2016 will be approximately 6.87 million sq.m..

3) Completion of Development Projects and Plans as Scheduled

The Group made proactive adjustments to strategy of inventory supply and construction plans, put off or cancelled the supply of certain products of same quality and exerted efforts in clearing up projects with higher inventory level in the first half of 2016. During the first half of 2016, floor area under

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construction reached 12.95 million sq.m. The aggregate GFA completed by the Group was approximately 3.11 million sq.m., 19.8% lower than the 3.88 million sq.m. completed in the corresponding period of last year. Looking forward to the second half of 2016, the GFA planned for completion of the Group for the whole year will be approximately 7.20 million sq.m., a decrease of 4.8% from 7.56 million sq.m. for the corresponding period in 2015.

4) Expansion of Land Bank for Long-term Sustainable Development

To support its sustainable development, the Group adopts an active but prudent policy toward land acquisition. In the first half of 2016, the Group acquired approximately 1.10 million sq.m. of land bank in Fuzhou, Yinchuan, Beijing, Nanjing and Wuhan. Currently, Shimao Property possesses 116 projects in 41 cities in the country, with a high-quality land bank of 31.85 million sq.m. (attributable interests). The premium land resources and relatively low land cost provide continued support to Shimao Property's results in the major markets nationwide in the next few years.

Geographically, the majority of the newly-acquired land parcels by Shimao Property in the first half of 2016 were situated in first- and second-tier cities at provincial capital level, which have enormous potential for development and markets of which have not yet reached saturation, assuring the projects of adequate room for development and capability to resist risks. The average floor price of the new land reserves was approximately RMB10,968 per sq.m. in terms of land cost. The Group holds sensible attitude, increases its land reserves by following its longstanding prudent policy and strives to strike a balance between development opportunity and risk control. As at 30 June 2016, the Group's average land cost was RMB3,017 per sq.m.. The relatively low land cost provides effective assurance for the Group to achieve a higher profit margin in the future.

Property Investment

With respect to commercial properties, Shimao Property develops commercial properties through Shanghai Shimao Co., Ltd. ("Shanghai Shimao"), a 58.92%-owned subsidiary, which is primarily engaged in the development and operation of commercial properties. Besides actively grasping development opportunities in the domestic commercial property market, Shanghai Shimao provides diversified commercial properties along with high quality related services by carrying out strategies on professional exploitation and operation of commercial properties. It continues to work on achieving greater integration for increased competitiveness, and aims to become a highly successful professional developer and operator of commercial properties.

During the reporting period, the annual work plan of the Shanghai Shimao was implemented accordingly. On 12 May, Shanghai Shimao disposed of 100% equity interest in Beijing Fortune Times Property Co., Ltd. and Beijing Baiding New Century Business Management Co., Ltd. to Leshi Holdings (Beijing) Co., Ltd. at a consideration of RMB2.972 billion according to the agreement. The share transaction fully reflected the strategic mindset of Shanghai Shimao in managing assets of commercial properties. The partial disposal of commercial properties which had become matured further enhanced the structure of commercial assets of Shanghai Shimao and achieved capital appreciation of commercial properties. On 16 July, Xiamen Shimao Emall Shopping Centre was grandly opened after years of preparation. Located in between the twin towers of Xiamen Shimao Straits Mansion, the shopping centre is home to various shops on light luxurious goods, trendy stuffs, food, entertainment, harbour-view cinema and waterfront gym rooms. Combining the humanity theme of the locality and the can-do spirit under the Minnan culture, it paves way for the "room for literary creation" with unique character, seeking to build an integrated, multi-dimensional space of city experience encompassing shopping, tourism, commerce, culture, recreation etc. Further, Shanghai Shimao's brand realignment initiatives targeted at its various commercial malls are aimed to uplift the overall brand attainments of the malls, and to couple with the improved and enriched internal management and property services at the malls to foster the ongoing enhancement in the shopping experience of consumers.

With respect to the capital market, during the reporting period, Shanghai Shimao started the preparation of the non-public issue of its A shares for 2016 in March, under which not more than 1,063,149,021 shares (adjusted) would be issued to raise a total of not more than RMB6,670,442,700 (inclusive), for the acquisition of 51% equity interests in Shenzhen Qianhai Shimao Financial Centre, 100% equity interests in Hangzhou Shimao Wisdom Tower, 100% in Nanchang Shimao APM, and project development works. Currently, Shanghai Shimao has conducted information disclosure and relevant preparations according to the requirements of the "Letter Concerning the Preparation for the Approval Committee Meetings in respect of the Relevant Projects" issued by China Securities Regulatory Commission. On 12 January, Shanghai Shimao completed the issue of the first tranche of short-term commercial notes in 2016, in a total amount of RMB2.0 billion with an annual coupon rate of 3%. On 22 March, Shanghai Shimao completed the issue of the first tranche of corporate bonds in 2016, in a total amount of RMB2.0 billion and an annual coupon rate of 3.29%.

Hotel Operations

The Group has developed from a hotel owner into a hotel owner and operator which is a milestone of the development of the hotel operations of the Group. As of 30 June 2016, the Group had 14 hotels in operation, including Le Royal Meridien Shanghai, Hyatt on the Bund Shanghai, Le Meridien Sheshan Shanghai, Hilton Nanjing Riverside, Holiday Inn Mudanjiang, Holiday Inn Shaoxing, DoubleTree by Hilton Wuhu, Crowne Plaza Shaoxing, InterContinental Fuzhou, Hilton Tianjin Eco-city, DoubleTree by Hilton Ningbo Chunxiao, Yuluxe Hotel Taizhou, a self-operated five-star hotel, MiniMax Hotel Shanghai Songjiang and MiniMax Premier Hotel Shanghai Hongqiao. Currently, the Group has more than 5,100 hotel guest rooms. Hilton Wuhan Riverside, the twelfth international-branded hotel under the Group with 338 hotel guest rooms, was grandly opened on 1 July. Hotels which are planned to commence operations in the second half of 2016 include Conrad Xiamen, DoubleTree by Hilton Ningbo Beilun, MiniMax Premier Hotel Dalian Jinzhou (self-operated), MiniMax Hotel Xiamen Central (self-operated) and MiniMax Premier Hotel Chengdu City Center (self-operated).

In the first half of 2016, the tourism market of China gradually expanded in scale and continued to outperform the macro-economy. In the first half of the year, total revenue from the tourism sector amounted to RMB2.25 trillion representing an increase of 12.4%. The increasing number of hotels has led to more intensified industry competition which squeezed out some hoteliers. However, this will also drive the members in the hotel industry to keep improving themselves and enhance their competitiveness. In the first half of 2016, the Group's hotels achieved revenue of RMB667 million, representing a year-on-year increase of 6.9%. In the first half of 2016, the Group further promoted its "Lifestyle Operator" strategy and actively implemented the new strategic model of people-oriented operation. In addition, to stay well ahead of the coming of information-oriented society and experience-oriented economy, the Group has already been well-equipped. In the future, the Group may be involved in multiple businesses such as elderly care, youth hostel and finance. The light asset business is conducted through advanced technology, quality services and professional operating standard. Further, in July, Shimao Hotels and Resorts entered into entrusted management arrangements for the first hotel – MiniMax Hotel Linyi Binhe in respect of the export of hotel management, and the hotel is expected to officially commence operation in the middle of 2017. This also signifies the first step of the "light asset" strategic transformation of Shimao Hotels and Resorts.

Looking forward to the second half of the year, challenges and opportunities still coexist in the hotel market. From a macroscopic perspective, the economy of China will maintain a steady growth. The government will introduce various measures to stimulate the development of tourism industry and to boost individual consumption. On the other hand, with the continual economic development of China, four-star and five-star hotels account for an increasing proportion in the consumption of tourists of Mainland China. The due opening of Shanghai Disneyland in the first half of this year will drive tourist arrivals at Shanghai to new heights, and bring forth positive impact on the hotel industry of Shanghai. Further, the government's recent lifting of the restrictions on consumption in five-star hotels will also have positive impact on the hotels under the Group.

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Determination to Uphold Prudent Financial Policy

In the first half of 2016, the Group continued to adopt prudent financial strategies for its operation. By focusing on collection of accounts receivables, controlling liabilities, further reducing the financing cost and optimizing capital structure, the Group was able to explore innovative and diversified financing channels for its real estate business to maintain its effective and stable development. In the first half of 2016, the cash from sales proceeds was approximately RMB29.39 billion with a cash collection rate of 85.3%. As of 30 June 2016, the Group had sufficient capital funds, with available funds in the amount of RMB40.1 billion. With the opening up of China's capital market, the Group has exerted great efforts to expand its domestic RMB financing channels, including becoming one of the first enterprises approved by the Shanghai Stock Exchange for the private issuance of corporate bonds and issuing the first tranche of private corporate bonds in the amount of RMB4.0 billion with one of the lowest interest rate among the same batch in January 2016. As of 30 June 2016, net gearing ratio of the Group was 55.7%. Net gearing ratio has been maintained below 60% for more than 4 consecutive years, laying a solid foundation for dealing with challenging and ever-changing economic and financial environments and the sustainable development of the Group going forward, and reflecting the sound operation and financial management of the Group.

The Group's financing costs continued to trend down through issuing low-interest rate RMB bonds and short-term commercial notes to replace high-interest-rate financing channels. On the other hand, the Group proactively explored innovative financing model of its real estate business and the asset securitization market. Coupling with other measures of interest reduction, the Group's weighted average financing costs was 6.5% in the first half of 2016, a drop from the annual figure of 6.9% in 2015. The Group has launched preparation for the issuance of public panda bonds and other financing channels in China, so as to limit the financing costs to 6% or less for the full year of 2016.

To mitigate its exchange risks, the Group took the initiatives to arrange cross-border RMB payments, and used cross-border RMB payment to prepay foreign currency borrowings in advance, thereby gradually lowering proportion of foreign currency borrowings and reducing exposure to foreign exchange risks. In the first half of 2016, the Group repaid foreign currency borrowings in the total amount equivalent to approximately RMB12.2 billion (including exchange loss), significantly lowering the proportion of foreign currency borrowings from 48% as at 31 December 2015 to 33% by mid-2016 and effectively controlling foreign exchange risks. The proportion of foreign currency borrowings for the full year is expected to drop further down to below approximately 32%. Moreover, the Group properly used financial derivatives including forward exchange option contracts to hedge against future RMB depreciation risks.

In order to avoid competition within the Group, Shimao Property announced on 14 March 2016 that it would transfer its entire or certain equity interests in the project companies for three commercial property projects, namely, Shenzhen Qianhai Shimao Financial Centre, Hangzhou Shimao Wisdom Tower and Nanchang Shimao APM, to Shanghai Shimao, specifying that Shimao Property will be primarily engaged in residential property and hotel investment, development and operation in the PRC in the future while Shanghai Shimao will be primarily engaged in commercial property investment, development and operation. In addition, the transaction will also facilitate the release of asset value and improvement of Shimao Property's cash flow.

In May 2016, Shanghai Shimao disposed of 100% equity interest in Beijing Fortune Times Property Co., Ltd. and Beijing Baiding New Century Business Management Co., Ltd. To Leshi Holdings (Beijing) Co., Ltd. at a consideration of approximately RMB2.972 billion according to the agreement. The share transaction generated profit after taxation attributable to shareholders of approximately RMB630 million, fully reflecting the strategic mindset of Shanghai Shimao in managing assets of commercial properties. Through the partial disposal of commercial properties which had become matured, the structure of commercial assets of Shanghai Shimao is further enhanced and capital appreciation of commercial properties can be realized. In view of the gain from the disposal of assets, the Board declared the distribution of a special dividend of HK6 cents per share. The Group's repurchase of a total of 39.99 million shares in July also raised the value of its shares, uplifted the return on equity and rewarded the support from the shareholders.

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Riding on its robust operating and financial performance, the Group received recognition from international rating agencies. In April 2016, Fitch promoted Shimao Property's long-term rating and debt rating from "BB+" to "BBB–", which is an investment-grade rating. Moody's and Standard & Poor's maintained their rating of Shimao Property at "Ba2" and "BB+" respectively. In June 2016, Shimao Property continued to receive "AAA" rating, the highest corporate credit rating, from the biggest domestic credit rating agencies, namely, China Chengxin Securities Rating Co., Ltd., United Ratings Co., Ltd. and Dagong Global Credit Rating Co., Ltd..

Looking forward to the second half of the year, higher volatility in the international market is expected. In its ongoing efforts to foster the business of innovative financing for the real estate sector, the Group will further adhere to its robust financial strategy and adopt prudent financial management approach to maintain adequate cash flows, minimize the finance cost and stabilise the operating efficiency.

Future Outlook

Looking forward to the second half of 2016, it is expected that demand will remain stable in the real estate market in general; supply-side structure reform will remain the focus; and monetary policies together with the overall easing policies of the real estate sector will maintain. A number of projects of the Group will be launched for sale at the end of the third quarter and the beginning of the fourth quarter, approximately 54% of which will be launched in first- and pre-first-tier cities. Our supply will address the needs of the markets where demand is robust. It is expected that both the average selling price and profit margin will further improve.

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About Shimao Property Holdings Limited

Shimao Property is a leading developer of high quality real estate projects in China, with a broad-ranging portfolio of residential, commercial and hotel properties in prime locations. Currently, the Group has approximately 116 projects in 41 cities in China, with a high-quality attributable land bank of 31.85 million sq.m. The Group's highly-acclaimed projects have been well received by property buyers and investors both within the PRC and internationally, and have been accredited numerous awards. Shimao Property concluded its first 20 years of development in the property market in China in 2009 and had completed the corporate restructuring of injecting commercial assets to Shanghai Shimao Co. Ltd. (SSE stock code: 600823). The success of entering into the A share market represents an important milestone for the development of the Group.

For more information about Shimao Property, please visit the Group's website: www.shimaoproperty.com.

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