THE HONGKONG AND SHANGHAI HOTELS, LIMITED
(the "Company")

AUDIT COMMITTEE
(the "Committee")

TERMS OF REFERENCE

MEMBERSHIP

The Committee shall have at least three members to be appointed by the Board, the majority of whom shall be Independent Non-Executive Directors. At least one member shall have the appropriate qualifications or experience in financial reporting. The Chairman of the Committee shall be an Independent Non-Executive Director of the Company.

The Company Secretary or his or her nominee shall act as the secretary of the Committee.

MEETINGS AND ACCESS

The Committee shall meet at least twice a year and additionally as required. The quorum of a meeting shall be two members of the Committee. The Chairman of the Committee shall attend the Annual General Meeting prepared to respond to any shareholder's questions on the Committee's activities.

Written resolutions shall be passed and adopted by all Committee members.

The Chairman of the Committee shall meet with the External Auditor and the General Manager, Audit and Risk Management (the "Internal Auditor") separately in the absence of management at least once a year. The Chairman of the Committee shall meet with the Executive Directors in the absence of External Auditor and Internal Auditor at least once a year.

The Committee shall have unrestricted access to the Executive Directors, other senior levels of management, the External Auditor and Internal Auditor. The Internal Auditor shall have the right to contact the Committee without reference to management.

MAIN RESPONSIBILITIES

1 ***Reviewing the Group's financial information***

(a) To monitor and review the integrity of financial statements, annual, interim and quarterly reports (if published), preliminary results' announcements and review significant financial reporting judgments contained in such documents before submitting to the Board with particular focus on:-

(i) any changes in accounting policies and practices and their application and/or implications;

(ii) major judgmental issues and estimates;

(iii) significant adjustments resulting from external audit;

(iv) the going concern assumption and qualifications;

(v) compliance with accounting standards;

(vi) adequacy of disclosure;

(vii) compliance with the Listing Rules and legal requirements; and

(viii) consistency within the financial statements and with prior disclosures.

(b) Regarding 1 (a) above:-

(i) to liaise with the Board and the Finance Department of the Company and meet with the External Auditor at least twice a year to discuss the financial statements, annual, interim and quarterly reports (if published) and preliminary results' announcements; and

(ii) to consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, and give due consideration to any matters that have been raised by staff responsible for the accounting and financial reporting function, compliance officer or Internal Auditor or the External Auditor.

2 ***Oversight of the Group's financial reporting system and internal control procedures***

(a) To review the Group's financial and accounting policies and practices.

(b) To review the Group's financial controls, internal controls and risk management systems.

(c) To ensure that management has put in place an effective internal control system with reference to adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function.

(d) To consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings.

(e) To ensure co-ordination between the Internal Auditor and External Auditor and ensure that the Audit & Risk Management Department (the "ARM") is adequately resourced and has appropriate standing within the Group; and review and monitor its effectiveness.

(f) To monitor and review on an on-going basis, on behalf of the Board, the effectiveness of the Group's accounting systems and internal control systems, including financial, operational and compliance controls and risk management function, and review the annual statement on internal control and its compliance prior to the endorsement by the Board for inclusion in the Corporate Governance Report.

(g) To conduct annual audit planning reviews with the ARM.

(h) To meet with the Internal Auditor as required on an ad-hoc basis whenever the Internal Auditor concludes that any matter within the internal control environment warrants special review by the Committee.

3 Relationship with the External Auditor

(a) To recommend to the Board on the appointment, re-appointment and removal of the External Auditor, and to approve the remuneration and terms of engagement of the External Auditor, and any questions of its resignation or dismissal.

(b) To review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit process taking into account relevant professional and regulatory requirements.

(c) To discuss with the External Auditor the nature and scope of the audit and reporting obligations and any major anticipated audit problems before any audit commences.

(d) To discuss with External Auditor any recent and anticipated developments in accounting principles or reporting practices that may affect the Group or the scope of the audit.

(e) To develop and implement policy on engaging an External Auditor to supply non-audit services, taking account of relevant guidelines and regulatory requirements and to review compliance with such policy annually.

(f) To report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

(g) To act as the key representative body for overseeing the Company's relations with the External Auditor.

(h) To review the External Auditor's management letter, any material queries raised by the External Auditor to management about accounting records, financial accounts or systems of control and management's response.

(i) To ensure that management will provide a timely response to the issues raised in the External Auditor's management letter.

(j) To meet with the External Auditor as required on an ad-hoc basis whenever External Auditor considers it necessary to review any accounting, financial reporting or internal control matter with the Committee.

4 *Other responsibilities*

(a) To ensure that there are proper channels and arrangements for employees to raise concerns in confidence about possible improprieties in financial reporting, internal control or other matters.

(b) To establish and review on a regular basis policies and systems for employees and other stakeholders to raise concerns in confidence with designated management personnel about possible improprieties in any matter related to the Group.

(c) To ensure that proper arrangements are in place for fair and independent investigation of reported matters and for appropriate follow-up action.

(d) To approve or endorse any recommendations or decisions in accordance with powers granted to it under the Company Management Authority Manual.

(e) To consider other topics or carry out any other duties as the Board may delegate from time to time.

(f) To report to the Board on the Committee's decisions and recommendations.

(g) To review the Committee's terms of reference periodically and recommend any proposed changes to the Board.

Note: The Board approved this terms of reference for the Committee on 30 March 2012.