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THE HONGKONG AND SHANGHAI HOTELS, LIMITED

香港上海大酒店有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 45)

Connected Transaction

Acquisition of the Equity Interest and Indebtedness of a Non-Wholly Owned Subsidiary

The Board announces that on 5 September 2011, Kam Lung Investments Limited (“KLI”), an indirect wholly owned subsidiary of the Company, acquired from Hong Kong Construction (Hong Kong) Limited (“HKC(HK)”) its entire interests in Hong Kong Construction Kam Lung Limited (“HKCKL”) through the purchase of the Sale Shares and the Indebtedness for a total cash consideration of HK\$578 million under the Sale and Purchase Agreement. Upon Completion of the Acquisition, HKCKL became a wholly owned subsidiary of the Company and HKC(HK) ceased to have any interest in HKCKL.

HKCKL was a 55% owned subsidiary of the Company, and is a foreign co-operative joint venture partner holding a 76.6% interest in The Palace Hotel Co., Ltd. (“TPH”), the owner of The Peninsula Beijing. As a 45% substantial shareholder of HKCKL, HKC(HK) was a Connected Person of the Company under the Listing Rules. As such the Acquisition constituted a connected transaction of the Company.

As the relevant Percentage Ratios represented by the Acquisition are more than 1% but less than 5%, the Acquisition falls within the definition of a connected transaction exempted from the approval of independent shareholders under Rule 14A.32 of the Listing Rules, but is subject to the reporting and announcement requirements.

Sale and Purchase Agreement

Date

5 September 2011

Parties

HKC(HK) (as seller)

HKC (as holding company of seller)

KLI (as purchaser)
HKCKL (as target company)

Details

Completion of the sale and purchase of the Sale Shares and the Indebtedness of HKCKL occurred on the same day immediately following signing of the Sale and Purchase Agreement on 5 September 2011.

Consideration

The consideration of HK\$578 million in cash was paid in full at Completion of the Acquisition, comprising HK\$45,000 paid for the Sale Shares and HK\$577,955,000 paid for assignment of the Indebtedness.

The consideration was arrived at after arm's length negotiations between KLI and HKC(HK) taking into account the contractual entitlements of the parties, the expected additional investments to be made through to the end of the term of TPH joint venture arrangements and with reference to the fair value of HKCKL's investment in The Peninsula Beijing as at 30 June, 2011.

The consideration was financed by the internal resources of the Group.

Other terms

Each of HKC(HK) and HKC provided representations, warranties, covenants and tax indemnities in connection with the Acquisition that were usual and customary for a transaction of this nature.

Financial Information of HKCKL

Upon Completion, HKCKL became an indirect wholly owned subsidiary of the Company. As the financial results of HKCKL have already been consolidated into the consolidated accounts of the Company as an indirect non-wholly owned subsidiary of the Company, the Company's accounting treatment in respect of its interest in HKCKL and TPH will remain unchanged as a result of the Acquisition.

Based on the audited consolidated income statement of HKCKL for the year ended 31 December 2010 prepared in accordance with HKFRS, the profit before taxation of HKCKL was HK\$91,589,215 which was inclusive of revaluation gain of the commercial arcade of The Peninsula Beijing of HK\$41,602,000 and the profit for the year after deduction of income and deferred taxes was HK\$53,377,396.

Based on the audited consolidated income statement of HKCKL for the year ended 31 December 2009 prepared in accordance with HKFRS, the profit before taxation of HKCKL was HK\$3,622,360 which was inclusive of a revaluation loss of commercial arcade of The Peninsula Beijing of HK\$51,064,500 and the loss for the year after deduction of income and deferred taxes was HK\$2,809,488.

Reasons for and Benefits of the Acquisition

The Acquisition allows the Group to increase its percentage interest in TPH from the existing 42.1% to 76.6%, consistent with the Group's strategy of owning and managing The Peninsula Hotels. The Group also believes in the long term outlook for the hotel and tourism industry in Beijing.

The book value of the Sale Shares and the Indebtedness is presented in the Company's consolidated balance sheet as "non-controlling interests". As at 30 June 2011, the unaudited book value of the Sale Shares and the Indebtedness amounted to approximately HK\$700 million. Completion of the Acquisition has resulted in a gain of approximately HK\$122 million which will be credited to consolidated statement of comprehensive income for the year ending 31 December 2011.

The Board (including the independent non-executive directors) considered the Acquisition to be fair and reasonable and on normal commercial terms and to be in the interests of the Group and the shareholders of the Company as a whole.

Connected transaction

HKCKL was a 55% owned subsidiary of the Company, and is a foreign co-operative joint venture partner holding a 76.6% interest in TPH, the owner of The Peninsula Beijing. As a 45% substantial shareholder of HKCKL, HKC(HK) was a Connected Person of the Company under the Listing Rules. As such the Acquisition constituted a connected transaction of the Company.

As the relevant Percentage Ratios represented by the Acquisition are more than 1% but less than 5%, the Acquisition falls within the definition of a connected transaction exempted from the approval of independent shareholders under Rule 14A.32 of the Listing Rules, but is subject to the reporting and announcement requirements.

As none of the Directors has any material interest in the Acquisition, no Director has abstained from voting the Board resolution approving the Acquisition.

Information relating to the Group

The Group engages in the business of ownership, development and management of prestigious hotel, commercial and residential properties in key locations in Asia, the United States and Europe, as well as the provision of transport, clubs management and other services.

Information relating to HKC Group

HKC Group is principally engaged in the business of property development and investment, alternative energy investment and management, infrastructure and construction. The investments of the HKC Group are mainly located in Mainland China.

HKC's original purchase cost of the assets which are the subject of the Acquisition was deemed to be RMB497,210,000 (equivalent to HK\$464,248,366 at the exchange rate used in HK\$1:RMB1.071 in December 2000) under the shareholders agreement between KLI and

HKCKL signed in December 2000.

Definitions

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of the Sale Shares and the Indebtedness by KLI from HKC(HK) subject to and in accordance with the terms and conditions of the Sale and Purchase Agreement
“Board”	board of Directors of the Company
“CEG”	China Everbright Industry Group Ltd., a company incorporated in PRC which is the PRC co-operative joint venture partner in TPH with a 23.4% interest in TPH
“Company”	The Hongkong and Shanghai Hotels, Limited, a company incorporated in Hong Kong with limited liability whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 45)
“Completion”	completion of the Acquisition in accordance with the terms of the Sale and Purchase Agreement, which took place on 5 September 2011
“Connected Person”	has the meaning ascribed to such term in the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HKC”	HKC (Holdings) Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Main Board of the Stock Exchange (Stock Code: 190)
“HKC Group”	HKC and its subsidiaries
“HKC(HK)”	Hong Kong Construction (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of HKC, and a Connected Person of the Company by virtue of its relationship with the Company’s subsidiaries
“HKCKL”	Hong Kong Construction Kam Lung Limited, a company incorporated in Hong Kong with limited liability and an indirect non-wholly owned subsidiary of the Company, which is the foreign co-operative joint venture partner in TPH with a 76.6% interest in TPH
“HKFRS”	Hong Kong Financial Reporting Standards

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Indebtedness”	the shareholder’s loan of RMB497.21 million owed by HKCKL to HKC(HK)
“KLI”	Kam Lung Investments Limited, a company incorporated in the Isle of Man with limited liability and an indirect wholly owned subsidiary of the Company
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Percentage Ratios”	shall have the meaning ascribed to such term in the Listing Rules
“PRC”	The People’s Republic of China, which, for the purposes of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, lawful currency of the PRC
“Sale and Purchase Agreement”	The sale and purchase agreement dated 5 September 2011 between KLI, HKC(HK), HKC and HKCKL in respect of the acquisition by KLI of the Sale Shares and the Indebtedness
“Sale Shares”	4,499 unentitled voting shares and one B Share (representing 45% equity interest) of HKCKL held in the name of HKC(HK)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TPH”	The Palace Hotel Co., Ltd., a sino-foreign co-operative joint venture established in the PRC and which owns The Peninsula Beijing and which is currently held as to 23.4% by CEG and 76.6% by HKCKL

By order of the Board
Christobelle Liao
Company Secretary

Hong Kong, 5 September 2011

As at the date of this announcement, the Board of Directors of the Company comprises the following Directors:

Non-Executive Chairman
The Hon. Sir Michael Kadoorie

Non-Executive Deputy Chairman
Ian Duncan Boyce

Executive Directors

Managing Director and Chief Executive Officer
Clement King Man Kwok

Chief Financial Officer
Neil John Galloway

Chief Operating Officer
Peter Camille Borer

Non-Executive Directors

Ronald James McAulay
William Elkin Mocatta
John Andrew Harry Leigh
Nicholas Timothy James Colfer

Independent Non-Executive Directors

Dr. the Hon. Sir David Kwok Po Li
Robert Chee Siong Ng
Robert Warren Miller
Patrick Blackwell Paul
Pierre Roger Boppe
Dr. William Kwok Lun Fung