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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)

**Discloseable Transaction
Investment of 50 per cent. Ownership Interest
in respect of 1-5 Grosvenor Place, Belgravia, London, the United Kingdom**

Further to the announcement of the Company dated 19 June 2013, the Board is pleased to announce that on 19 July 2013, Lease Sale Agreements were entered into pursuant to which Derwent London has agreed to sell and the Purchaser has agreed to purchase the Lease representing 50 per cent. ownership interest in the Site for a total cash consideration of £132.5 million (approximately HK\$1,564 million), exclusive of value added tax and other applicable taxes. The remaining 50 per cent. interest in the Site is owned by Grosvenor which has consented to the sale. The buildings on the Site are currently fully leased to commercial and residential tenants. In addition, a suite of agreements will be entered into by the Purchaser and Grosvenor simultaneous to completion of the Lease Sale Agreements to govern the Joint Venture Arrangements between them including the ownership, management and potential redevelopment of the Site.

Pursuant to the Transaction, the Purchaser will acquire the Lease from Derwent London which represents a 50 per cent. ownership interest in the Site. The Purchase Price of £132.5 million (approximately HK\$1,564 million), exclusive of value added tax and other applicable taxes, was arrived at after arm's length negotiations having regards to the market value and the redevelopment potential of the Site into a mixed use luxury hotel and luxury residential development and the agreed value of the Site of £265 million (approximately HK\$3,127 million). The Purchase Price will be funded from the Company's own resources. As the applicable percentage ratio under Chapter 14 of the Listing Rules of the Transaction is 5 per cent. or more, but is less than 25 per cent., the Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Under the Joint Venture Arrangements, Grosvenor and the Purchaser have agreed, among other things, to work together to design and submit a planning application jointly to develop the Site into a mixed use development consisting of a Peninsula Hotel and luxury residences on a 50:50 basis, as may be adjusted from time to time. Grosvenor and the Purchaser will work on the Total Redevelopment Cost and determine, upon obtaining all requisite planning approvals, whether to proceed with the redevelopment. If the redevelopment is to proceed, the hotel is expected to be named The Peninsula London and managed by the Operator for an

initial period of 50 years with two automatic renewals of 50 years until the expiry of the Lease, each subject to the Operator meeting of certain financial performance criteria towards the end of the initial period and the first renewal term respectively (subject to acceleration of the frequency of the performance test in the event of certain trigger events taking place).

Redevelopment of the Site will be subject to a number of conditions including obtaining of all requisite planning approvals and the agreement to proceed by Grosvenor and Purchaser at their discretion. If Grosvenor and the Purchaser agree to proceed with the redevelopment, the Total Redevelopment Cost would be funded by each party in proportion to their respective ownership interest from time to time. The Total Redevelopment Cost has not been determined pending design and planning consents. **In this connection, Shareholders and potential investors of the Company should note that the redevelopment may or may not proceed. A further announcement will be made if and when a decision is made between Grosvenor and the Purchaser to proceed with the redevelopment and an estimate of the Total Redevelopment Cost becomes available. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the securities of the Company.**

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Derwent London, Grosvenor and their respective ultimate beneficial owners are third parties independent of the Company and of connected persons (as defined in the Listing Rules) of the Company.

The London Project is comprised of certain agreements with key terms set out below:

Lease Sale Agreements

Parties: Derwent London
Grosvenor
Purchaser

Date: 19 July 2013

Transaction: The Lease Sale Agreements are unconditional. Derwent London as the sub-lessee agreed to sell, and Grosvenor as the sub-lessor consented to the sale and the Purchaser agreed to purchase the ownership interest in the Lease currently held by Derwent London, representing a 50 per cent. ownership interest in the Site and the relevant adjoining areas, subject to and in accordance with the terms and conditions of the Lease Sale Agreements.

Derwent London will exit from the joint venture with Grosvenor and cease to hold any ownership interest in the Site or the Lease.

The buildings on the Site are currently fully leased to commercial and residential tenants. The unaudited net profits before tax attributable to the Site as at 31 December 2011 and 31 December 2012 was £6 million (approximately HK\$71 million) and £7.3 million

(approximately HK\$86 million) respectively.

Consideration: The total cash consideration for the Sale Lease is £132.5 million (approximately HK\$1,564 million), exclusive of value added tax and other applicable taxes, which will be paid on the Closing Date. The Purchase Price was arrived at after arm's length negotiations having regards to the market value and the redevelopment potential of the Site into a mixed use hotel and residential development and the agreed value of the Site of £265 million (approximately HK\$3,127 million). The Purchase Price will be funded from the Company's own resources.

Covenants in favour of Derwent London: The Purchaser has agreed to give Derwent London certain covenants relating to restriction on disposal of the Lease within three years of closing and certain planning parameters. The Company has agreed to guarantee certain obligations of the Purchaser under the covenants in favour of Derwent London. These covenants are considered in the interest of the Company and would not impact on the proposed plans for the Site.

Closing: 25 July 2013

Joint Venture Arrangements

Parties: Grosvenor
Purchaser
Developer JV

Effective date: Will be entered into simultaneous at completion of the Lease Sale Agreements

Purpose: To govern the duties and responsibilities of Grosvenor and the Purchaser in the management of the existing buildings on the Site pending planning submission and approval, responsibilities of the Developer JV, the respective rights and obligations of Grosvenor and the Purchaser through the different stages of potential redevelopment and completion of the redevelopment to turn the existing buildings on the Site into a mixed use development consisting of a luxury hotel to be named "The Peninsula London" and luxury residences.

Funding: Grosvenor and the Purchaser have agreed to fund the Total Redevelopment Cost each in proportion to their respective ownership interest in the Lease from time to time.

Put Option: Grosvenor has a right to put its 50 per cent. interest in the hotel portion of the London Project on the Purchaser five years after soft opening of the hotel based on an agreed land price, the hotel portion of redevelopment cost and a cost of capital to the time the put option is exercised. The Company has agreed to a guarantee in favour of Grosvenor in relation to the payment obligations under the put option.

Hotel Agreements

The terms of a suite of hotel agreements, governing the future management and operation of The Peninsula London, have been agreed and will be entered into when the Purchaser and Grosvenor agree to proceed with the redevelopment. Certain subsidiaries of the Company, including the Operator, will be appointed to manage the hotel and ancillary facilities for an initial period of 50 years with two automatic renewals of 50 years until the expiry of the Lease, each subject to the Operator meeting of certain financial performance criteria towards the end of the initial period and the first renewal term respectively (subject to acceleration of the frequency of the performance test in the event of certain trigger events taking place).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Derwent London, Grosvenor and their respective ultimate beneficial owners are third parties independent of the Company and of connected persons (as defined in the Listing Rules) of the Company.

Financial Commitment

The expected commitment of the Company, through the Purchaser to the London Project under the Lease Sale Agreements and the Joint Venture Arrangements would consist of the Purchase Price of £132.5 million (approximately HK\$1,564 million), exclusive of value added tax and other applicable taxes, and the expected commitment to redevelopment being 50 per cent. of the Total Redevelopment Cost. **As the redevelopment will be subject to a number of conditions including obtaining of all requisite planning approvals and the agreement to proceed by Grosvenor and the Purchaser at their discretion, the Total Redevelopment Cost has not been determined pending design and planning consents. In this connection, Shareholders and potential investors of the Company should note that the redevelopment may or may not proceed. A further announcement will be made if and when a decision is made between Grosvenor and the Purchaser to proceed with the redevelopment and an estimate of the Total Redevelopment Cost becomes available. Shareholders and potential investors of the Company should therefore exercise caution when dealing in the securities of the Company.**

As based on the current estimate, the applicable percentage ratio of the Transaction under Chapter 14 of the Listing Rules is 5 per cent. or more, but less than 25 per cent., the Transaction constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Reasons for the London Project

The London Project enables the Company to seek to develop a Peninsula luxury hotel in London, as a key international gateway city, financial centre and major transit destination. This project is consistent with the Company's long term strategy and represents further

expansion in Europe for the Company, following the agreement to develop of The Peninsula Paris in France in 2009. The Directors believe that the terms of the Transaction are fair and reasonable and in the interests of the Shareholders as a whole.

The Company

The Company through its subsidiaries and its jointly controlled entity are principally engaged in the 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, club management and other services.

Grosvenor Group

Grosvenor Group is a privately-owned property company with offices in 19 of the world's most dynamic cities. The Grosvenor Group has regional investment and development businesses in Britain and Ireland, the Americas and Asia Pacific. Their international fund management business operates across all these markets and also Continental Europe. They also have indirect investments managed centrally. As of 31 December 2012, the Grosvenor Group had total assets under management of £12.2 billion (approximately HK\$144 billion). Unusually for a private company, the Grosvenor Group publishes a full Annual Report and Accounts which are available at: www.grosvenor.com.

Derwent London

Derwent Valley Central Limited is a company held by Derwent London plc which is the largest central London-focused REIT. Derwent London plc is listed on the London Stock Exchange and is a member of the FTSE 250. It owns and manages an investment portfolio of 5.4 million sq.ft. of which 97 per cent. is located in central London, with a specific focus on the West End and the area bordering the City of London, the United Kingdom. Derwent London plc's report and accounts are available online at: www.derwentlondon.com.

Definitions

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

“£”	Sterling Pound(s), the lawful currency of the United Kingdom
“Board”	the Board of directors of the Company
“Closing Date”	25 July 2013
“Company”	The Hongkong and Shanghai Hotels, Limited, a company incorporated in Hong Kong with limited liability under the Companies Ordinance and the shares of which are listed on the main board of The Stock Exchange of Hong Kong Limited
“Derwent London”	Derwent Valley Central Limited, a company registered in England, and a directly wholly-owned subsidiary of Derwent London plc whose shares are listed on the London Stock Exchange
“Developer JV”	One GP LLP, a limited liability partnership incorporated in the England & Wales to which the Purchaser will be

	admitted as a 50% owner following the acquisition of Derwent London's ownership interest in the Lease. One GP LLP will act as the developer of the Site
“Directors”	the directors of the Company
“Grosvenor”	GP Lessee LLP, the head lessee of the Site pursuant to the head lease granted by Grosvenor Estate Belgravia, the landlord of the Site
“Joint Venture Arrangements”	a suite of agreements to be entered into between Grosvenor, the Purchaser and Developer JV at the completion of the Lease Sale Agreements relating to the management of the existing buildings on the Site pending planning submission and approval, responsibilities of the Developer JV, the respective rights and obligations of Grosvenor and the Purchaser through the different stages of potential redevelopment and completion of the redevelopment, as well as the conduct of the affairs of the Site post redevelopment
“HK\$”	Hong Kong Dollar(s), the lawful currency of Hong Kong
“Lease”	the existing 150 years lease (148 years left) over the Site commencing on 23 February 2012 and expiring on 22 February 2162 and a supplemental lease of a small amount of airspace above the premises demised by such existing lease
“Lease Sale Agreements”	a suite of unconditional agreements dated 19 July 2013 and entered into among Derwent London, Grosvenor and Purchaser for the sale and purchase of the Sale Lease and the leasehold of the relevant adjoining areas required by the redevelopment
“Listing Rules”	The Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited
“London Project”	the project for the acquisition of the Sale Lease and redevelopment of the Site into a mixed use development consisting of a luxury hotel to be branded “The Peninsula London”, and luxury residences
“Operator”	Peninsula London Hotel Management Services Limited, a limited company registered in the England & Wales and an indirectly wholly-owned subsidiary of the Company
“Purchase Price”	£132.5 million (approximately HK\$1,564 million) being the price payable by the Purchaser for the Sale Lease under the Lease Sale Agreements exclusive of value added tax and other applicable taxes
“Purchaser”	Peninsula London, LP, a limited partnership registered in the England & Wales and an indirectly wholly-owned subsidiary of the Company

“Sale Lease”	the ownership interest owned by Derwent London in the Lease including any interest payments accrued thereon due as at the Closing Date
“Shareholders”	shareholders of the Company
“Site”	the site of 1-5 Grosvenor Place, Belgravia, London, the United Kingdom
“Total Redevelopment Cost”	the estimated redevelopment and renovation cost for the London Project
“Transaction”	the sale and purchase of the Sale Lease for a consideration of £132.5 million (approximately HK\$1,564 million), exclusive of value added tax and other applicable taxes, on terms and conditions set out in the Lease Sale Agreements and entering into of Joint Venture Arrangements

For the purpose of translation of currency in this announcement the following rate has been used, £1 = HK\$11.8.

By order of the Board
Christobelle Liao
Company Secretary

19 July 2013

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 Warren Miller

Patrick Blackwell Paul

Pierre Roger Boppe

Dr. William Kwok Lun Fung

Dr. Rosanna Yick Ming Wong