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SHANGRI-LA ASIA LIMITED

香格里拉(亞洲)有限公司

(Incorporated in Bermuda with limited liability)

website: www.ir.shangri-la.com

(Stock code: 00069)

**CONTINUING CONNECTED TRANSACTIONS
ENTERING INTO HOTEL MANAGEMENT AGREEMENTS
AND MARKETING SERVICES AGREEMENT**

On 4 March 2016, Hangzhou Project Co (a PRC company ultimately owned as to 25% by the Company and 75% by KPL) entered into the Hangzhou HMA and the Marketing Services Agreement with SLIM-HK and SLIM-PRC (both of which are wholly owned subsidiaries of the Company), respectively. Pursuant to the Hangzhou HMA and Marketing Services Agreement, Hangzhou Project Co engages SLIM-HK and SLIM-PRC to provide the Hotel Management Services and the Marketing Services for Midtown Shangri-La Hotel, Hangzhou, a hotel owned by Hangzhou Project Co.

On 17 July 2015, Tangshan Project Co (a PRC company ultimately owned as to 35% by the Company, 40% by KPL and 25% by Allgreen) entered into the Tangshan HMA with SLIM-HK. Pursuant to the Tangshan HMA, Tangshan Project Co engages SLIM-HK to provide the Hotel Management Services and Marketing Services for the Shangri-La Hotel, Tangshan, a hotel owned by Tangshan Project Co.

The Project Cos are associates of KPL. KPL is a subsidiary of KHL which in turn is a substantial shareholder of the Company. Accordingly, the Project Cos are connected persons of the Company.

The entering into of the Hotel Management Agreements and Marketing Services Agreement constitutes continuing connected transactions for the Company. As the Tangshan HMA, the Hangzhou HMA and the Marketing Services Agreement are signed within 12 months of each other, the amount of fees payable thereunder are required to be aggregated for the purpose of complying with the relevant disclosure requirements under the Listing Rules.

As the expected maximum annual aggregate amount of Fees payable by the Project Cos to the Company exceeds 0.1% but is less than 5% of the applicable Percentage Ratios, the entering into the Hotel Management Agreements and Marketing Services Agreement by SLIM-HK and SLIM-PRC is subject to announcement and reporting requirements but is exempt from independent shareholders' approval requirement under the Listing Rules. Details of each of the Hotel Management Agreements and the Marketing Services Agreement and the actual amount of the Fees will be disclosed in the future annual reports of the Company in accordance with the Listing Rules.

As the Hangzhou HMA, Tangshan HMA and the Marketing Services Agreement all have a 20-year term, the Company has obtained its independent financial adviser's opinion confirming that it is normal business practice for these agreements to be of such duration.

INTRODUCTION

On 4 March 2016, Hangzhou Project Co entered into the Hangzhou HMA and the Marketing Services Agreement with SLIM-HK and SLIM-PRC, respectively. Pursuant to the Hangzhou HMA and the Marketing Services Agreement, Hangzhou Project Co engages SLIM-HK and SLIM-PRC to provide the Hotel Management Services and the Marketing Services for Midtown Shangri-La Hotel, Hangzhou, a hotel owned by Hangzhou Project Co.

On 17 July 2015, Tangshan Project Co entered into the Tangshan HMA with SLIM-HK. Pursuant to the Tangshan HMA, Tangshan Project Co engages SLIM-HK to provide the Hotel Management Services and Marketing Services for Shangri-La Hotel, Tangshan, a hotel owned by Tangshan Project Co.

MAIN TERMS OF THE HOTEL MANAGEMENT AGREEMENTS

Agreement:	<u>Tangshan HMA</u>	<u>Hangzhou HMA</u>
Date:	17 July 2015	4 March 2016
Hotel:	Shangri-La Hotel, Tangshan	Midtown Shangri-La Hotel, Hangzhou
Parties:	(i) Tangshan Project Co (as owner) (ii) SLIM-HK (as manager)	(i) Hangzhou Project Co (as owner) (ii) SLIM-HK (as manager)
Services:	SLIM-HK will provide Hotel Management Services and Marketing Services for Shangri-La Hotel, Tangshan	SLIM-HK will provide Hotel Management Services for Midtown Shangri-La Hotel, Hangzhou
Term:	20 years commencing from the opening date of each of the Hotels	
Fees:	The fees payable under the agreements for each of the Hotels mainly comprise: <ul style="list-style-type: none">▪ Base management fee – a fixed percentage of the gross operating revenue of the Hotel per annum for hotel management services▪ Marketing fee (applicable to Tangshan HMA only) – a fixed percentage of the gross operating revenue of the Hotel per annum for on-going marketing services▪ Reservation fees – a fixed amount per booking for reservation services	

MAIN TERMS OF THE MARKETING SERVICES AGREEMENT

Date:	4 March 2016
Hotel:	Midtown Shangri-La Hotel, Hangzhou
Parties:	(i) Hangzhou Project Co (ii) SLIM-PRC

Services: SLIM-PRC will provide Marketing Services for Midtown Shangri-La Hotel, Hangzhou. The Marketing Services to be provided are identical to those under the Tangshan HMA save that for Midtown Shangri-La Hotel, Hangzhou the terms are set out in the Marketing Services Agreement and will be provided by SLIM-PRC, another wholly-owned subsidiary of the Company

Term: Same as the Hangzhou HMA

Fees: The fees payable under the agreement mainly comprise:

- Marketing fee – a fixed percentage of the gross operating revenue of the Hotel per annum for on-going marketing services

EXPECTED MAXIMUM ANNUAL AMOUNTS OF FEES

Based on the terms of the Hotel Management Agreements and the Marketing Services Agreement, the expected increase in occupancy and room rates of each of the Hotels and taking into account possible inflation, the Board expects that the maximum annual amount of the Fees for each of the following financial years up to expiry will not exceed the following respective amounts:

	<u>Shangri-La Hotel, Tangshan</u>	<u>Midtown Shangri-La Hotel, Hangzhou</u>
Financial years ending	31 December 2035	31 December 2036
Maximum annual amount	RMB39 million	RMB93 million

The terms of each of the Hotel Management Agreements and the Marketing Services Agreement were arrived at after arms' length negotiations between SLIM-HK or SLIM-PRC and each of the Project Cos. If any of the maximum annual amounts stated above is exceeded, the Company will re-comply with the requirements under Chapter 14A of the Listing Rules.

CONTRACT OF A DURATION LONGER THAN 3 YEARS AND INDEPENDENT FINANCIAL ADVISERS' OPINIONS ON THE TERM OF THE HOTEL MANAGEMENT AGREEMENTS AND THE MARKETING SERVICES AGREEMENT

The Company has appointed Somerley as its independent financial adviser and its opinion on the terms of the Tangshan HMA, the Hangzhou HMA and the Marketing Services Agreement is as follows:

“In arriving at its opinion, Somerley has relied on the information set out in this announcement and has referred to the terms of the Tangshan HMA, the Hangzhou HMA, the Marketing Services Agreement (together, the “**Agreements**”), which each have a duration of 20 years. Somerley has taken into consideration that (i) the Group will, as manager of the Hotels, devote significant management effort to develop the business of a new hotel over a number of years, which makes it commercially desirable for the Group to have a sufficiently long management duration to capture the benefits arising from its effort in the initial years; and (ii) a comparatively long duration will facilitate the Group's marketing initiatives and extend the period of management fee income from the Hotel Management Agreements. As regards the Marketing Services Agreement, Somerley has been advised by the management of the Group that it and the corresponding Hotel Management Agreement together form a service package to the hotel owner, and it would be impracticable for the Marketing Services Agreement to be of a different length than the corresponding Hotel Management Agreement,

as the services under the corresponding Hotel Management Agreement rely on the provision of the Marketing Services, for example, in relation to hotel branding.

In assessing the durations of the Agreements, Somerley has reviewed similar agreements entered into between the Group and independent third parties (the “**SA Comparable Transactions**”), and notes that the durations of the Hotel Management Agreements fall within the range of durations of the hotel management agreements under the SA Comparable Transactions of 10 to 25 years, and that the durations of marketing services agreements under the SA Comparable Transactions are equal to (i) the duration of the Marketing Services Agreement of 20 years and (ii) the durations of the corresponding hotel management agreements. Somerley has also reviewed a number of comparable transactions involving hotel management services provided by hotel managers to hotel owners, where one of the parties (or its direct or indirect holding company) is listed on the Stock Exchange (other than the Group), and such transactions constitute continuing connected transactions disclosable under the Listing Rules (the “**Comparable Transactions**”). Somerley notes that the durations of the Comparable Transactions range from approximately 3 to 30 years. Accordingly, the duration of the Hotel Management Agreements falls within the range. We also note that the durations of hotel management services provided by certain other well-known international hotel service operators to hotel owners (which Somerley identified from published sources) range from 20 to 37 years.

Based on the above considerations, Somerley is of the opinion that the term of 20 years under each of the Agreements is a normal commercial term for a transaction of this nature and it is normal business practice for contracts of this type to be of such duration.”

REASONS FOR ENTERING INTO THE AGREEMENTS

As mentioned in the joint announcements of the Company and KPL dated 11 February 2009 and 31 December 2010 in relation to, amongst other things, the joint investment in the Project Cos and the development of the related projects, the Group will contribute to such development in terms of its experience, expertise and standing in the hotel industry to bring better prospects and enhanced shareholders’ value for the projects undertaken by the Project Cos. The principal business activities of SLIM-HK and SLIM-PRC are the provision of hotel management, hotel marketing and other related services. Accordingly, it is in the interests of the Company, through SLIM-HK and SLIM-PRC, to enter into the Hotel Management Agreements and the Marketing Services Agreement for the provision of the relevant services to the Hotels.

The Directors (including the independent non-executive Directors) take the view that the entering into of the Hotel Management Agreements and/or the Marketing Services Agreement is in the ordinary and usual course of business of the Group and believe that the terms of these agreements are on normal commercial terms, are fair and reasonable and in the interest of the Company and its shareholder as a whole.

Mr KUOK Khoon Chen and Ms KUOK Hui Kwong are deemed to have more than 5% interest in KHL within the meaning of Part XV of the Securities and Futures Ordinance and have accordingly abstained from voting on the resolutions in relation to the Hotel Management Agreement and Marketing Services Agreement entered into with Hangzhou Project Co.

The Board confirms that, save for Mr KUOK Khoon Chen and Ms KUOK Hui Kwong for the Hotel Management Agreement and Marketing Services Agreement entered into with Hangzhou Project Co, none of the Directors had material interest in the Hotel Management Agreements and the Marketing Services Agreement, and accordingly, none of such Directors was required to abstain from voting on the resolutions in relation to the entering into of these agreements.

INFORMATION ABOUT THE GROUP AND THE PROJECT COS

The principal activities of the Group are the ownership and operation of hotels and associated properties and the provision of hotel management and related services. The Company's subsidiaries are also the registered proprietors of various trademarks and service marks in various countries, including the brand names "Shangri-La", "Hotel Jen", "Traders", "Rasa", "Summer Palace" and "Shang Palace" and related devices and logos.

The principal activities of each of the Project Cos are the ownership and development of the project located at its respective location, Tangshan and Hangzhou, respectively, and both include the development of a hotel.

IMPLICATIONS UNDER THE LISTING RULES

The Project Cos are associates of KPL. KPL is a subsidiary of KHL which in turn is a substantial shareholder of the Company. Accordingly, the Project Cos are connected persons of the Company.

The entering into of the Hotel Management Agreements and Marketing Services Agreement constitutes continuing connected transactions for the Company. As the Tangshan HMA, the Hangzhou HMA and the Marketing Services Agreement are signed within 12 months of each other, the amount of fees payable thereunder are required to be aggregated for the purpose of complying with the relevant disclosure requirements under the Listing Rules.

As the expected maximum annual aggregate amount of Fees payable by the Project Cos to the Company exceeds 0.1% but is less than 5% of the applicable Percentage Ratios, the entering into the Hotel Management Agreements and Marketing Services Agreement is subject to announcement and reporting requirements but is exempt from independent shareholders' approval requirement. Details of each of the Hotel Management Agreements and the Marketing Services Agreement and the actual amount of the Fees will be disclosed in the future annual report of the Company in accordance with the Listing Rules.

DEFINITIONS

"Allgreen"	Allgreen Properties Limited, a company incorporated in Singapore with limited liability, and is an associate of KHL
"associate"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"Company"	Shangri-La Asia Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are primarily listed on the Main Board of the Stock Exchange with secondary listing on the Singapore Exchange Securities Trading Limited
"connected person"	has the meaning ascribed to it in the Listing Rules
"Directors"	directors of the Company
"Fees"	the fees payable by each of the Project Cos to SLIM-HK or SLIM-PRC for the Hotel Management Services and the Marketing Services under the Hotel Management Agreements and the Marketing Services Agreement

“Group”	the Company and its subsidiaries
“Hangzhou HMA”	the hotel management agreement dated 4 March 2016 entered into between Hangzhou Project Co and SLIM-HK for the provision of, amongst others, Hotel Management Services by SLIM-HK to Midtown Shangri-La Hotel, Hangzhou
“Hangzhou Project Co”	Kerry Real Estate (Hangzhou) Co, Limited 嘉里置業（杭州）有限公司, a company incorporated in the PRC and is ultimately owned as to 25% by the Company and 75% by KPL
“Hotel(s)”	Midtown Shangri-La Hotel, Hangzhou and/or Shangri-La Hotel, Tangshan
“Hotel Management Agreement(s)”	Hangzhou HMA and/or Tangshan HMA
“Hotel Management Services”	hotel management services to be provided by SLIM-HK in accordance with the Hangzhou HMA and Tangshan HMA to the relevant Hotel which, apart from hotel management services, shall include reservation services and, in the case of Shangri-La Hotel, Tangshan, also include marketing services
“KHL”	Kerry Holdings Limited, a substantial shareholder of the Company
“KPL”	Kerry Properties Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Marketing Services Agreement”	the marketing services agreement entered into between Hangzhou Project Co and SLIM-PRC for the provision of Marketing Services by SLIM-PRC to Midtown Shangri-La Hotel, Hangzhou
“Marketing Services”	marketing services to be provided by SLIM-HK (in the case of Shangri-La Hotel, Tangshan) and SLIM-PRC (in the case of Midtown Shangri-La Hotel, Hangzhou) to the relevant Hotel in accordance with the Tangshan HMA (in the case of Shangri-La Hotel, Tangshan) or the Marketing Services Agreement (in the case of Midtown Shangri-La Hotel, Hangzhou)
“Midtown Shangri-La Hotel, Hangzhou”	Midtown Shangri-La Hotel, Hangzhou, a hotel situated in Hangzhou and owned by Hangzhou Project Co
“Percentage Ratios”	has the meaning ascribed to it in Chapter 14 of the Listing Rules
“PRC”	the People’s Republic of China
“Project Cos”	Hangzhou Project Co and Tangshan Project Co

“Shangri-La Hotel, Tangshan”	Shangri-La Hotel, Tangshan, a hotel situated in Tangshan and owned by Tangshan Project Co
“SLIM-HK”	Shangri-La International Hotel Management Limited, a company incorporated in Hong Kong and is ultimately wholly owned by the Company
“SLIM-PRC”	Shangri-La Hotel Management (Shanghai) Co, Limited, a company incorporated in the PRC and is ultimately wholly owned by the Company
“Somerley”	Somerley Capital Limited, a licensed corporation which is permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance, being the independent financial adviser appointed for the purpose of Rule 14A.52 of the Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“Tangshan HMA”	the hotel management agreement dated 17 July 2015 entered into between Tangshan Project Co and SLIM-HK for the provision of, amongst others, Hotel Management Services by SLIM-HK to Shangri-La Hotel, Tangshan
“Tangshan Project Co”	Ruihe Real Estate (Tangshan) Co, Limited 瑞和置業(唐山)有限公司, a company incorporated in the PRC and is ultimately owned as to 35% by the Company, 40% by KPL and 25% by Allgreen

On behalf of the board of
Shangri-La Asia Limited
KUOK Khoon Chen
Chairman

Hong Kong, 4 March 2016

As at the date hereof, the directors of the Company are:

Executive directors

Mr KUOK Khoon Chen (Chairman)
Mr LUI Man Shing
Mr Madhu Rama Chandra RAO
Mr Gregory Allan DOGAN

Independent non-executive directors

Mr Alexander Reid HAMILTON
Mr Timothy David DATTELS
Professor LI Kwok Cheung Arthur
Dr LEE Kai-Fu

Non-executive directors

Mr HO Kian Guan
Ms KUOK Hui Kwong
Mr HO Kian Hock (alternate to Mr HO Kian Guan)