

SHANGRI-LA GROUP

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Shangri-La Asia Limited

(Incorporated in Bermuda with limited liability)

website: www.ir.shangri-la.com

(Stock code: 00069)

CONTINUING CONNECTED TRANSACTION ENTERING INTO HOTEL MANAGEMENT AGREEMENT AND MARKETING AND TRAINING SERVICES AGREEMENT

SLIM-HK and the Project Co (a PRC company ultimately owned as to 23.75% by the Company, 71.25% by KPL and 5% by Beiao) entered into a management and marketing services agreements on 30 June 1998 (“**Original Agreement**”), pursuant to which the Project Co has engaged SLIM-HK to manage and operate the Hotel. The Original Agreement will expire on 27 August 2019 and the Project Co wishes to continue to appoint SLIM-HK to manage and operate the Hotel. The Project Co owns the Hotel.

On 26 August 2019, SLIM-HK and SLIM-PRC (both of which are wholly owned subsidiaries of the Company) entered into the Hotel Management Agreement and the Marketing and Training Services Agreement with the Project Co, respectively. Pursuant to the Hotel Management Agreement and the Marketing and Training Services Agreement, the Project Co engages SLIM-HK and SLIM-PRC to provide the Hotel Management Services and the Marketing and Training Services for the Hotel.

The Project Co is an associate of KPL. KPL is a subsidiary of KHL which in turn is a substantial shareholder of the Company. Accordingly, the Project Co is a connected person of the Company. The entering into of the Hotel Management Agreement and Marketing and Training Services Agreement constitutes a continuing connected transaction for the Company.

As the maximum annual amount of the Fees exceeds 0.1% but is less than 5% of the applicable Percentage Ratios, the entering into of the Hotel Management Agreement and Marketing and Training 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 Agreement and the Marketing and Training Services Agreement and the actual amount of the Fees will be disclosed in the future annual reports and financial statements of the Company in accordance with the Listing Rules.

As the Hotel Management Agreement and the Marketing and Training Services Agreement both 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

SLIM-HK and the Project Co entered into the Original Agreement, pursuant to which the Project Co has engaged SLIM-HK to manage and operate the Hotel. The Original Agreement will expire on 27 August 2019 and the Project Co wishes to continue to appoint SLIM-HK to manage and operate the Hotel. The Project Co owns the Hotel.

On 26 August 2019, SLIM-HK and SLIM-PRC entered into the Hotel Management Agreement and the Marketing and Training Services Agreement with the Project Co, respectively. Pursuant to the Hotel Management Agreement and the Marketing and Training Services Agreement, the Project Co engages SLIM-HK and SLIM-PRC to provide the Hotel Management Services and the Marketing and Training Services for the Hotel.

MAIN TERMS OF THE HOTEL MANAGEMENT AGREEMENT

- Date:** 26 August 2019
- Parties:** (i) Project Co (as Hotel owner)
(ii) SLIM-HK (as service provider)
- Services:** SLIM-HK will provide Hotel Management Services for the Hotel
- Term:** 20 years commencing from 28 August 2019
- Fees:** The fees payable under the agreement mainly comprise:
 - Base management fee a fixed percentage of the gross operating revenue of the Hotel per annum
 - Incentive management fee a variable percentage of the adjusted gross operating profit of the Hotel per annum
 - Branding fund a fixed amount per room per annum
 - Reservation fees a fixed percentage of room revenue per booking for reservation services

MAIN TERMS OF THE MARKETING AND TRAINING SERVICES AGREEMENT

- Date:** 26 August 2019
- Parties:** (i) Project Co (as Hotel owner)
(ii) SLIM-PRC (as service provider)
- Services:** SLIM-PRC will provide Marketing and Training Services for the Hotel
- Term:** Same as the Hotel Management Agreement
- Fees:** The fees payable under the agreement mainly comprise:
 - Sales and marketing fee a fixed percentage of the gross operating revenue of the Hotel per annum
 - Training fee a fixed percentage of the annual total base salary of the employees of the Hotel

EXPECTED MAXIMUM ANNUAL AGGREGATE AMOUNT OF FEES

Based on the terms of the Hotel Management Agreement and the Marketing and Training Services Agreement, the expected increase in occupancy and room rates of the Hotel and taking into account possible inflation, the Board expects that the maximum annual amount of the Fees for each of the financial years up to expiry will not exceed RMB110 million.

The terms of the Hotel Management Agreement and the Marketing and Training Services Agreement were arrived at after arms' length negotiations between SLIM-HK or SLIM-PRC and the Project Co. If the maximum annual aggregate amount 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 AND TRAINING SERVICES AGREEMENT

The Company has appointed Somerley as its independent financial adviser and its opinion on the terms of the Hotel Management Agreement and the Marketing and Training 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 Hotel Management Agreement and the Marketing and Training Services Agreement (together, the “**Agreements**”), each of which has a duration of 20 years. Somerley has taken into consideration that (i) it is a common practice in the hotel industry and commercially sensible for the Group, acting as a hotel manager, to renew hotel management agreements on a long term basis, in order to continue utilising the investment made and current management system, and leveraging current hotel customer base which usually take years to ramp up; and (ii) a comparatively long duration will facilitate and incentivise the Group's marketing initiatives and bring to the Group a long term and sustainable source of management fee income from the Hotel Management Agreement. As regards the Marketing and Training 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 its terms and conditions are set out in a separate agreement because the Marketing and Training Services would be provided by SLIM-PRC, while the Hotel Management Services would be provided by SLIM-HK, due to the Group's internal arrangements. The duration of the Marketing and Training Services Agreement should therefore be the same as the Hotel Management Agreement.

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 Agreement 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 and training services agreements (where applicable) under the SA Comparable Transactions are equal to 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 1 to 30 years. Accordingly, the duration of the Hotel Management Agreement 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 8 to 30 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 the provision of hotel management and related services is one of the main businesses of the Group, it is in the interest of the Group to enter into the Hotel Management Agreement and the Marketing and Training Services Agreement.

The Directors (including the independent non-executive Directors) take the view that the entering into of the Hotel Management Agreement and the Marketing and Training 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, and are fair and reasonable and in the interest of the Company and its shareholder as a whole.

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

The Board confirms that, save for Ms KUOK Hui Kwong, none of the Directors had material interest in the Hotel Management Agreement and the Marketing and Training 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, SLIM-HK, SLIM-PRC AND THE PROJECT CO

The principal activities of the Group are the development, ownership and operation of hotel properties, the provision of hotel management and related services, the development, ownership and operations of investment properties and property development for sale. The Group operates its business under various brand names including “Shangri-La”, “Kerry Hotel”, “Hotel Jen”, “Traders Hotel”, “Rasa”, “Summer Palace”, “Shang Palace” and “CHI, The Spa at Shangri-La”.

The principal business activities of SLIM-HK and SLIM-PRC are the provision of hotel management, hotel marketing and other related services.

The principal activities of the Project Co are the ownership and operation of the Hotel.

IMPLICATIONS UNDER THE LISTING RULES

The Project Co is an associate of KPL. KPL is a subsidiary of KHL which in turn is a substantial shareholder of the Company. Accordingly, the Project Co is a connected person of the Company. The entering into of the Hotel Management Agreement and Marketing and Training Services Agreement constitutes a continuing connected transaction for the Company.

As the maximum annual amount of the Fees exceeds 0.1% but is less than 5% of the applicable Percentage Ratios, the entering into of the Hotel Management Agreement and Marketing and Training 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 Agreement and the Marketing and Training Services Agreement and the actual amount of the Fees will be disclosed in the future annual reports and financial statements of the Company in accordance with the Listing Rules.

DEFINITIONS

“associate”	has the meaning ascribed to it in the Listing Rules
“Beiao”	北京北奧集團有限責任公司 (Beijing Beiao Group Corp, Limited), a company incorporated in PRC
“Board”	the board of Directors
“Company”	Shangri-La Asia Limited, an exempted company incorporated in Bermuda with limited liability, whose shares 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 the Project Co to SLIM-HK or SLIM-PRC for the Hotel Management Services and the Marketing and Training Services under the Hotel Management Agreement and the Marketing and Training Services Agreement
“Group”	the Company and its subsidiaries
“Hotel”	Kerry Hotel, Beijing, a hotel owned by the Project Co
“Hotel Management Agreement”	the hotel management agreement dated 26 August 2019 entered into between the Project Co and SLIM-HK for the provision of, amongst others, Hotel Management Services by SLIM-HK for the Hotel
“Hotel Management Services”	hotel management services to be provided for the Hotel
“KHL”	Kerry Holdings Limited, a substantial shareholder of the Company
“KPL”	Kerry Properties Limited, an exempted company incorporated in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Marketing and Training Services Agreement”	the marketing and training services agreement dated 26 August 2019 entered into between the Project Co and SLIM-PRC for the provision of Marketing and Training Services by SLIM-PRC for the Hotel
“Marketing and Training Services”	sales and marketing and training services to be provided for the Hotel
“Percentage Ratios”	has the meaning ascribed to it in Chapter 14 of the Listing Rules
“PRC”	the People’s Republic of China

“Project Co”	Beijing Kerry Hotel Co, Limited, a company incorporated in the PRC and is indirectly owned by the Company, KPL and Beiao as to 23.75%, 71.25% and 5% respectively
“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

By order of the Board of
Shangri-La Asia Limited
SEOW Chow Loong Iain
Company Secretary

Hong Kong, 26 August 2019

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

Executive director(s)

Ms KUOK Hui Kwong (Chairman)
Mr LIM Beng Chee (CEO)

Non-executive director(s)

Mr HO Kian Guan (alternate – Mr HO Chung Tao)

Independent non-executive director(s)

Professor LI Kwok Cheung Arthur
Mr YAP Chee Keong
Mr LI Xiaodong Forrest