



THE HONGKONG AND SHANGHAI HOTELS, LIMITED

香港上海大酒店有限公司

(Incorporated in Hong Kong with limited liability)

PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

SUMMARY

On 20 October 2003, the Vendors and the Company entered into the Placing Agreement with UBS Investment Bank, pursuant to which UBS Investment Bank will procure purchasers to acquire, or failing which itself as principal acquire, and the Vendors will sell or procure the sale of in aggregate 159,632,018 existing Shares at the Placing Price of HK\$4.90 per Share.

The Placing Price represents a discount of approximately 10% to the closing price of HK\$5.45 per Share as quoted on the Stock Exchange on 20 October 2003 and a discount of approximately 7% to the average closing price of approximately HK\$5.27 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 20 October, 2003. The Placing Shares represent approximately 13.66% of the existing issued share capital of the Company of 1,168,542,077 Shares.

Pursuant to the Subscription Agreement, the Vendors have conditionally agreed to subscribe or procure the subscription of an aggregate of 233,708,415 New Shares at the Placing Price. The New Shares represent 20% of the existing issued share capital of the Company of 1,168,542,077 Shares and approximately 16.67% of the issued share capital of the Company as enlarged by the Subscription.

The net proceeds from the Subscription are estimated to be approximately HK\$1,133 million. The aggregate expenses relating to the Placing and the Subscription amount to approximately HK\$12 million, including commissions, professional fees and other ancillary expenses.

The proceeds from the Subscription will be used in the development of new hotels and the continuing refurbishment or renovation of some of the Group's existing hotel and property interests. These projects include the development of The Peninsula Tokyo (scheduled to open in 2007) and other new hotel developments, such as in Shanghai where the Company is negotiating a possible project. The Group is also planning to renovate some of its existing non-hotel properties. In the short term, pending utilisation of the funds for the above purposes, the proceeds will be applied towards reducing bank borrowings.

PLACING AGREEMENT DATED 20 OCTOBER 2003

Parties

- (a) Vendors;
- (b) the Company; and
- (c) UBS Investment Bank.

UBS Investment Bank is not a connected person of the Company under the Listing Rules for the purposes of this transaction.

The Placing Shares

159,632,018 Shares, representing approximately 13.66% of the existing issued share capital of the Company and approximately 11.38% of the issued share capital of the Company as enlarged by the Subscription.

Placing Price

The Placing Price of HK\$4.90 per Share was arrived at after arm's length negotiations between the Company, the Vendors and UBS Investment Bank. It represents a discount of approximately 10% to the closing price of HK\$5.45 per Share as quoted on the Stock Exchange on 20 October 2003 and a discount of 7% to the average closing price of approximately HK\$5.27 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 20 October 2003. The net Placing Price after deduction of expenses and commissions is estimated to be approximately HK\$4.82 per Share. The Company expects that the total amount of the expenses in relation to the Placing and the Subscription is approximately HK\$12 million.

Rights

The Placing Shares will be sold free of all liens, charges and encumbrances, claims, options and third party rights and together with all rights attaching thereto as at 20 October 2003, including the right to receive all dividends or other distributions declared, made or paid on the Placing Shares at any time after 20 October 2003.

Independence of placees

The placees and their beneficial owners are not connected persons of the Company (as defined in the Listing Rules). UBS Investment Bank expects that there will be over six placees who will be (i) professional and institutional investors which term generally includes brokers, dealers and companies (including fund managers), whose ordinary business involves dealing in shares and other securities; (ii) corporate entities which regularly invest in shares and other securities; and (iii) individuals.

Termination events

The obligation of UBS Investment Bank to proceed to completion in the Placing Agreement is conditional upon (a) the Subscription Agreement having been entered into and not subsequently being revoked, terminated or modified; (b) there not having come to the attention of UBS Investment Bank at any time prior to completion any material breach of, or any event rendering untrue, incorrect or breached in any material respect, any of the representations, warranties or undertakings referred to in the Placing Agreement or any material breach of, or material failure to perform, any of the other material obligations of the Company or the Vendors which are required to be performed at or before completion; (c) there not having occurred any event, or series of events, beyond the reasonable control of UBS Investment Bank; any material adverse change, or development (whether or not permanent) involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company or the Group as a whole, whether or not arising in the ordinary course of business; any material adverse change or any development (whether or not permanent) involving a prospective material adverse change or any crisis in local, national or international monetary, financial, economic, legal, taxation or political conditions or foreign exchange controls in Hong Kong and overseas or any occurrence of a combination of any such changes or developments or crises or any deterioration of any such conditions; which, in the reasonable opinion of UBS Investment Bank (after consultation with the Company); is likely to prejudice materially the success of the Placing; and (d) there not having been imposed any moratorium, suspension or material restriction on trading in shares or securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise at any time prior to completion of the Placing.

If any of such conditions shall not have been fulfilled or waived by UBS Investment Bank by completion of the Placing, the Placing will not proceed. Shareholders and investors are advised to exercise caution in dealing in the Shares.

Completion of the Placing

The parties expected that the Placing will be completed on or around 23 October 2003.

Lock-up

The Vendors have undertaken to UBS Investment Bank that from the date of the Placing Agreement and on or prior to the date being three months after the date of the Placing Agreement it will not and will procure that none of its nominees, companies controlled by it or trusts associated with it (whether individually or together and whether directly or indirectly) will (without the prior written consent of UBS Investment Bank) (i) offer, lend, pledge, issue, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares (including the New Shares but excluding the Placing Shares) or any interests therein or any securities convertible into or exercisable or exchangeable for or substantially similar to any such Shares or interests or (ii) enter into any swap or similar agreement that transfers, in whole or in part, the economic risk of ownership of such Shares, whether any such transaction described in (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above.

The Company has undertaken to UBS Investment Bank that (except for (i) the New Shares (ii) any new Shares to be issued pursuant to the existing employee share options of the Company in issue as at the date hereof and (iii) any Shares or other securities or rights issued or granted to shareholders by way of bonus or under any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with its Articles of Association or on the exercise of rights existing at the date of the Placing Agreement) from the date hereof and on and prior to the date being three months after the date of the Placing Agreement it will not (without the prior written consent of UBS Investment Bank) (i) allot or issue or offer to allot or issue or grant any option, right or warrant to subscribe (either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or any interests in Shares or any securities convertible into or exercisable or exchangeable for or substantially similar to any Shares or interest in Shares or (ii) agree (conditionally or unconditionally) to enter into or effect any such transaction with the same economic effect as any of the transaction described in (i) above or (iii) announce any intention to enter into or effect any such transaction described in (i) or (ii) above.

SUBSCRIPTION AGREEMENT DATED 20 OCTOBER 2003

Parties

- (a) Vendors; and
- (b) the Company.

The New Shares

233,708,415 New Shares, representing 20% of the existing issued share capital of the Company and approximately 16.67% of the issued share capital of the Company as enlarged by the Subscription.

Subscription Price

The Subscription Price is equivalent to the Placing Price of HK\$4.90 per Share, net of expenses in relation to the Placing (expenses offset by the amount of interest earned on the net proceeds of the Placing during the period from the completion of the Placing up to the completion of the Subscription). The aggregate expenses relating to the Placing and the Subscription amount to approximately HK\$12 million, including commissions, professional fees and other ancillary expenses.

General mandate to issue New Shares

The New Shares will be issued pursuant to the general mandate granted by the shareholders of the Company to the Directors on 19 May 2003.

An application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Shares to be issued pursuant to the Subscription.

Ranking

The New Shares, when issued and fully paid, will rank equally with the existing Shares of the Company in issue as at the date of issue of the New Shares.

Condition of the Subscription

Completion of the Subscription is conditional upon:

- (a) completion of the Placing; and
- (b) an application being made to the Stock Exchange for the grant of listing of, and permission to deal in, all of the New Shares.

Completion of the Subscription

Subject to fulfillment of the above conditions, completion of the Subscription will take place not later than 14 days after the date of the Placing Agreement or such later date as the Company and the Vendors may agree in writing. If the Subscription is not completed within 14 days after the date of the Placing Agreement, the Subscription would constitute a connected transaction for the Company under the Listing Rules.

EFFECT OF THE PLACING AND THE SUBSCRIPTION

The shareholdings in the Company before and after the Placing and the Subscription are summarised as follows:

	At present		Immediately after Completion of the Placing but before Subscription		Immediately after Completion of the Placing and Subscription	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Vendors and parties acting in concert with the Vendors (Note)	697,161,374	59.66%	537,529,356	46.00%	771,237,771	55.00%
Placees	0	0.00%	159,632,018	13.66%	159,632,018	11.38%
Other shareholders	471,380,703	40.34%	471,380,703	40.34%	471,380,703	33.62%
	<u>1,168,542,077</u>	<u>100.0%</u>	<u>1,168,542,077</u>	<u>100.0%</u>	<u>1,402,250,492</u>	<u>100.0%</u>

Note: The shareholding interests of Mikado Holding Inc. in the Company at present and immediately after completion of the Placing and Subscription are 254,490,631 Shares and 305,364,791 Shares respectively, representing approximately 21.78% of the existing issued share capital and approximately 21.78% of the issued share capital of the Company as enlarged by the issue of the New Shares. The shareholding interests of Xenon Holding Corporation in the Company at present and immediately after completion of the Placing and Subscription are 316,447,411 Shares and 339,649,648 Shares respectively, representing approximately 27.08% of the existing issued share capital and approximately 24.22% of the issued share capital of the Company as enlarged by the issue of the New Shares.

REASONS FOR THE PLACING AND THE SUBSCRIPTION AND USE OF PROCEEDS

The Directors consider that the Placing and the Subscription will strengthen the capital base of the Company.

The proceeds from the Subscription will be used in the development of new hotels and the continuing refurbishment or renovation of some of the Group's existing hotel and property interests. These projects include the development of The Peninsula Tokyo (scheduled to open in 2007) and other new hotel developments, such as in Shanghai where the Company is negotiating a possible project. The Group is also planning to renovate some of its existing non-hotel properties. In the short term, pending utilisation of the funds for the above purposes, the proceeds will be applied towards reducing bank borrowings.

The Company did not have any fund raising activities in the past 12 months.

DEFINITIONS

"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
"Director(s)"	the director(s) of the Company
"Group"	the Company and its subsidiaries
"HK\$"	the lawful currency of Hong Kong
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"New Shares"	233,708,415 new Shares to be subscribed by the Vendors or their nominees under the Subscription
"Placing"	the placing of the Placing Shares pursuant to the Placing Agreement
"Placing Agreement"	the placing agreement dated 20 October 2003 between the Vendors, the Company and UBS Investment Bank
"Placing Price"	HK\$4.90 per Placing Share
"Placing Shares"	159,632,018 existing Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Share(s)"	ordinary share(s) of HK\$0.50 each in the share capital of the Company
"Subscription"	the conditional subscription by the Vendors of the New Shares pursuant to the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 20 October 2003 between the Vendor and the Company
"UBS Investment Bank"	UBS AG, Hong Kong Branch
"Vendors"	Mikado Holding Inc. and Xenon Holding Corporation, companies incorporated in Nauru

By order of the board
Christobelle Liao
Company Secretary