

**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold all your shares in The Hongkong and Shanghai Hotels, Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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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**

**SHANGHAI PROJECT**

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17th November 2004

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“associate”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Directors”	the directors of the Company;
“the Company”	The Hongkong and Shanghai Hotels, Limited;
“Early-Stage Development Price”	the amount (subject to adjustment) that forms part of the Total Land Price to be payable by PSW under the Entrustment Contract to NHP for development works at the Site;
“Entrustment Contract”	the contract for entrustment of demolition and infrastructure and public utilities construction dated 28th October 2004 between PSW and NHP for development works at the Site including the Four Connections and One Leveling Works and the Seven Connections Works;
“Four Connections and One Leveling Works”	the works to be carried out by NHP under the Entrustment Contract including the connection of water, storm sewer pipes, electricity and road up to the boundaries of the construction site of the Shanghai Project and the leveling of the Site, including the leveling of the land surface, removal of water and sludge and relocation of the existing occupiers at the Site;
“Group”	the Company and its subsidiaries;
“Hong Kong”	Hong Kong Special Administrative Region;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Huang Pu Government”	The People’s Government of Huang Pu District, Shanghai, PRC;
“Land Grant Contract”	the state-owned land use rights grant contract dated 28th October 2004 entered into between Shanghai Real Estate Bureau and PSW for the purchase of the Site;

## DEFINITIONS

“Land Premium”	the amount that forms part of the Total Land Price to be payable by PSW;
“Latest Practicable Date”	12th November 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange;
“NHP”	Shanghai New Huang Pu (Group) Co. Ltd, a state-owned company established by the Huang Pu Government;
“PIIHL”	Peninsula International Investment Holdings Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company;
“PRC”	The People’s Republic of China;
“Project Agreement”	the conditional project agreement dated 7th May 2004 between NHP and TPS setting out the conditions to pursue the acquisition of the Site as announced on 7th May 2004 and which formed the basis of the Land Grant Contract and the Entrustment Contract;
“PSW”	The Peninsula Shanghai Waitan Hotel Company Limited, a wholly foreign owned enterprise incorporated in the PRC and owned by TPS;
“Seven Connections Works”	the works to be carried out by NHP under the Entrustment Contract including the connection of road, electricity, storm sewer pipes, natural gas line, water, telecommunications and cable television up to the boundaries of the Site;
“Shanghai Project”	the project for the development and construction of a hotel to be branded “The Peninsula Shanghai”, a Peninsula apartment hotel, a retail arcade and ancillary facilities at the Site;
“Shanghai Real Estate Bureau”	Shanghai Real Estate Resources Administration Bureau;

## DEFINITIONS

“Shareholders Agreement”	the shareholders agreement dated 8th August 2003 between the Company, Starwaly Properties (Group) Pty Ltd (as novated to SPG), PIIHL, TPS and Mr. David Wang Wei Xian governing the rights and obligations of the parties in relation to TPS and the management of PSW and the Shanghai Project;
“Site”	a piece of land located at No. 175 Block of Huang Pu District in Shanghai, which is in the Waitanyuan area situated near the old British Consulate at the northern end of the Bund;
“SPG”	SPG Hotel Limited, an investment holding company incorporated in the British Virgin Islands ultimately owned by a discretionary trust of which Mr. David Wang Wei Xian is a beneficiary and settlor;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Total Land Price”	The total price for the purchase of the Site, which comprises the Land Premium under the Land Grant Contract and the Early-Stage Development Price under the Entrustment Contract, subject to adjustment;
“Total Project Cost”	The estimated cost for the Shanghai Project, including the Total Land Price and the construction and development costs;
“TPS”	The Peninsula Shanghai (BVI) Limited, a company incorporated in the British Virgin Islands, and a 50:50 jointly-controlled entity between PIIHL and SPG; and
“US\$”	United States dollars, the lawful currency of the United States.

For the purpose of translations of currency in this circular the following rate has been used, US\$1.00 = HK\$7.8.

## LETTER FROM THE BOARD



# 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)

### **Directors:**

Dr The Hon. Michael D Kadoorie

*Chairman*

Ian D Boyce

*Deputy Chairman*

Clement K M Kwok

*Managing Director and Chief Executive Officer*

Sir Sidney Gordon

Ronald J McAulay

William E Mocatta

Dr The Hon. David K P Li\*

Robert C S Ng\*

James S Dickson Leach

Pierre R Boppe

Robert W Miller\*

C Mark Broadley

*Chief Financial Officer*

Patrick B Paul\*

Peter C Borer

*Chief Operating Officer*

### **Registered Office:**

8th Floor, St. George's Building

2 Ice House Street

Central

Hong Kong

\* *Independent non-executive director*

*To the Shareholders,*

17th November 2004

Dear Sir or Madam,

## **DISCLOSEABLE TRANSACTION SHANGHAI PROJECT**

### **INTRODUCTION**

The Company announced on 28th October 2004 that PSW had entered into the Land Grant Contract with the Shanghai Real Estate Bureau for the purchase of the Site, and the Entrustment Contract with NHP for related development works.

## LETTER FROM THE BOARD

PSW is a wholly-owned subsidiary of TPS, which in turn is a 50:50 jointly-controlled entity set up by PIIHL (a subsidiary of the Company) and SPG pursuant to the Shareholders Agreement.

PSW will develop the Shanghai Project on the Site. The estimated Total Project Cost of the Shanghai Project is approximately US\$361 million (approximately HK\$2.8 billion), which includes the Total Land Price of US\$109,188,500 (approximately HK\$851,670,300) subject to adjustment as described below and the related construction and development cost. The Total Land Price was negotiated on an arm's length basis having taken into account other land transactions in Shanghai and the nature of the Site. The Company's maximum commitment to the Shanghai Project is currently estimated to be approximately US\$180.5 million (approximately HK\$1.4 billion), being 50% of the Total Project Cost, not taking into account any borrowings which may be obtained by TPS or PSW or any proceeds from the sale of any part of the Shanghai Project.

The maximum commitment of the Company to the Shanghai Project under the Shareholders Agreement constitutes a discloseable transaction of the Company under the Listing Rules.

### **Land Grant Contract**

*Parties:* PSW (purchaser)  
Shanghai Real Estate Bureau (vendor)

*Date:* 28th October 2004

*Asset acquired:*

PSW agreed to purchase the Site from the Shanghai Real Estate Bureau. There is no conditions precedent to the Land Grant Contract. The Site is a piece of land of 13,898 square metres located at No. 175 Block of Huang Pu District in Shanghai, which is in the Waitanyuan area situated near the old British Consulate at the northern end of the Bund. The Site is for mixed-use (hotel, commercial and office) with a term of land use rights of 50 years, and has a total construction area (above ground) of not more than 56,000 sq.m.

PSW shall be entitled to apply for the land use right certificate of the Site after payment of the Land Premium under the Land Grant Contract and the Early-Stage Development Price under the Entrustment Contract.

*Consideration:*

PSW shall pay a Land Premium of US\$32,756,550 (approximately HK\$255,501,090) in accordance with the following schedule:

- (a) US\$4,000,000 (approximately HK\$31,200,000) before 7th November 2004, (which has been duly paid); and
- (b) US\$28,756,550 (approximately HK\$224,301,090) before 27th December 2004.

## LETTER FROM THE BOARD

Any late payment of the Land Premium will be subject to interest. The termination of the Land Grant Contract and the Entrustment Contract are inter-conditional.

The Land Premium was agreed after arm's length negotiations having taken into account other land transactions in Shanghai and the nature of the Site. The Directors consider the terms and conditions of the Land Grant Contract to be fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

### **Entrustment Contract**

*Parties:* PSW  
NHP

*Date:* 28th October 2004

*NHP's obligations:*

Under the Entrustment Contract, NHP has agreed, amongst other things:

- (i) to perform pre-development works on the Site including completing the Four Connections and One Leveling Works within 8 months from the date of the Land Grant Contract and Seven Connections Works within 3 months from such time as PSW may request; and
- (ii) to provide assistance in obtaining approvals and facilitating construction by liaising with government departments in relation to the Shanghai Project.

The Entrustment Contract contains no conditions precedent.

*Consideration:*

PSW shall pay the Early-Stage Development Price of US\$76,431,950 (approximately HK\$596,169,210) (subject to adjustment) to NHP in accordance with the following schedule:

- (i) within 120 days after the signing of the Entrustment Contract, US\$20,837,700 (approximately HK\$162,534,606); and
- (ii) within 300 days after the signing of the Entrustment Contract, the balance of US\$54,594,250 (approximately HK\$425,835,150).

Any late payment of the Early-Stage Development Price shall be subject to interest. The termination of the Land Grant Contract and the Entrustment Contract are inter-conditional.

TPS, as the sole shareholder of PSW, has already paid NHP a refundable deposit of US\$1 million (approximately HK\$7.8 million) pursuant to the Project Agreement as described in the announcement dated 7th May 2004 which will be applied towards the first payment of the Early-Stage Development Price to be payable by PSW.

## LETTER FROM THE BOARD

The Early-Stage Development Price may be adjusted depending on the timing of implementation of a number of infrastructure improvements adjacent to the Site. The maximum adjustment is US\$25,188,500 (approximately HK\$196,470,300) above the Total Land Price.

The Early-Stage Development Price was agreed after arm's length negotiations having taken into account other land transactions in Shanghai and the nature of the Site. The Directors consider the terms and conditions of the Entrustment Contract to be fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

### Shareholders Agreement

*Parties:* PIIHL (as shareholder of TPS)  
Starwaly Properties (Group) Pty Limited (as shareholder of TPS) as novated to SPG  
TPS  
David Wang Wei Xian (as guarantor of obligations of SPG)  
The Company (as guarantor of obligations of PIIHL)

*Date:* 8th August 2003

#### *Terms of the Shareholders Agreement:*

PIIHL and SPG agreed to set up TPS as a 50:50 jointly-controlled entity for the purpose of identifying a site in Shanghai and to own, develop, and manage the Shanghai Project. The Shareholders Agreement also governs the rights and obligations of PIIHL and SPG in relation to TPS and PSW, which includes their respective funding obligations and right to dividends as shareholders of TPS.

PIIHL and SPG have agreed to fund the costs required for the Shanghai Project partly through commercial borrowings by TPS and/or PSW and partly through their own financial resources in proportion to their respective shareholdings in TPS on a several basis. Any security given will also be on a several basis and in proportion to their respective shareholdings. The funding obligation of each of PIIHL and SPG is guaranteed by the Company and David Wang Wei Xian respectively. As at the Latest Practicable Date, each of PIIHL and SPG has contributed approximately US\$2.6 million (approximately HK\$20,280,000) to TPS for payment of the US\$1 million (approximately HK\$7,800,000) refundable deposit under the Project Agreement, the first payment of the Land Premium payable under the Land Grant Contract by PSW, and as working capital of PSW.

The Directors consider the terms and conditions of the Shareholders Agreement to be fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole.

## LETTER FROM THE BOARD

The establishment of TPS fell into the *de minimis* exemption under the Listing Rules and therefore no announcement was made at the time the Shareholders Agreement was entered into. However, the maximum commitment of the Company to the Shanghai Project under this Shareholders Agreement constitutes a discloseable transaction of the Company under the Listing Rules. The Shanghai Project does not have any material immediate effect on the earnings, assets and liabilities of the Company.

### **The Shanghai Project**

The Shanghai Project encompasses the development and construction of a Peninsula hotel, a Peninsula apartment hotel, a retail arcade and ancillary facilities at the Site located at the northern end of the Bund close to the old British Consulate within the Waitanyuan area of Huang Pu District, Shanghai. The Site is L-shaped, wrapping around the existing buildings of the China Everbright Bank and Shanghai Municipal Cultural Television Broadcast Bureau. The Site is bounded on the north by the old British Consulate garden, on the west by Yuan Ming Yuan Road, on the south by Beijing East Road and on the east by the Bund.

### **Total Project Costs**

The estimated Total Project Cost of the Shanghai Project is approximately US\$361 million (approximately HK\$2.8 billion), which includes the Total Land Price and the related construction and development cost. Accordingly, the Company's maximum commitment to the Shanghai Project under the Shareholders Agreement is currently estimated to be approximately US\$180.5 million (approximately HK\$1.4 billion), being 50% of the Total Project Cost not taking into account any borrowings which may be obtained by TPS or PSW or any proceeds from the sale of any part of the Shanghai Project.

PIIHL and SPG have agreed to fund PSW for payment of the Land Premium and the Early-Stage Development Price through TPS on a 50:50 basis from their own financial resources. Any further funding required for the Shanghai Project will be determined in accordance with the Shareholders Agreement and in light of the circumstances prevailing at that time.

### **Reasons for the Shanghai Project**

The Company's principal business comprises the ownership and management of prestigious hotels, commercial and residential properties in key destinations in Asia and the USA and it is the owner and operator of The Peninsula Hotels.

The Shanghai Project enables the Company to establish a Peninsula hotel and a significant presence in Shanghai, and further expands the "Peninsula" brand of hotels in the PRC in addition to The Peninsula Palace in Beijing. It signifies the return of the Company to a city that has played a significant part in its history.

## LETTER FROM THE BOARD

### **SPG, NHP and Shanghai Real Estate Bureau**

SPG is an investment holding company ultimately owned by a discretionary trust of which Mr. David Wang Wei Xian is a beneficiary and settlor. Mr. David Wang Wei Xian is the founder and controlling shareholder of Starwaly Properties (Group) Pty Ltd, a property investment company in Shanghai. Save for the interest of SPG as a shareholder of TPS and Mr. David Wang Wei Xian's indirect interest in TPS and PSW and him being a director of TPS and PSW, both Mr. David Wang Wei Xian and SPG are independent of the Company and any of its subsidiaries, and the directors, chief executive and substantial shareholders of the Company and their respective associates.

NHP is a state-owned company established by the Huang Pu Government and is independent of the Company and any of its subsidiaries, and the directors, chief executive and substantial shareholders of the Company and their respective associates.

Shanghai Real Estate Bureau is a government department of the People's Government of the Shanghai Municipality and is independent of the Company and any of its subsidiaries, and the directors, chief executive and substantial shareholders of the Company and their respective associates.

Yours faithfully,  
For and on behalf of the Board  
**The Hongkong and Shanghai Hotels, Limited**  
**Christobelle Liao**  
*Company Secretary*

**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

**DISCLOSURE OF INTERESTS****Interests of directors and chief executive**

As at the Latest Practicable Date, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which he is taken or deemed to have under such provision of the Securities and Futures Ordinance), or are required pursuant to section 352 of the Securities and Futures Ordinance to be entered in the register referred to therein, or are required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

*Long Position in shares*

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Dr The Hon. Michael D Kadoorie	<i>Note (a)</i>	702,000,096	50.062
Ian D Boyce	Beneficial Owner	200,000	0.014
Clement K M Kwok	Beneficial Owner	600,000	0.043
Sir Sidney Gordon	Beneficial Owner	96,000	0.007
Ronald J McAulay	<i>Note (b)</i>	489,706,415	34.923
William E Mocatta	Family	1,017,000	0.073
Dr The Hon. David K P Li	Beneficial Owner	500,000	0.036
Robert C S Ng	Family	119,166	0.008
Pierre R Boppe	Beneficial Owner	150,000	0.011
C Mark Broadley	Beneficial Owner	200,000	0.014

*Notes:*

- (a) Dr The Hon. Michael D Kadoorie was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 702,000,096 shares in the Company. These shares were held in the following capacity:
- (i) 420,468,740 shares were held by discretionary trusts, of which Dr The Hon. Michael D Kadoorie is one of the beneficiaries.

- (ii) 281,531,356 shares were held by a discretionary trust, of which Dr The Hon. Michael D Kadoorie is a beneficiary and the founder.
- (b) Mr Ronald J McAulay was deemed (by virtue of the Securities and Futures Ordinance) to be interested in 489,706,415 shares in the Company. These shares were held in the following capacity:
  - (i) 420,468,740 shares were held by discretionary trusts, of which Mr Ronald J McAulay is one of the beneficiaries.
  - (ii) 69,237,675 shares were held by a discretionary trust, of which Mr Ronald J McAulay, his wife and members of his family are beneficiaries.

Messrs James S Dickson Leach, Robert W Miller, Patrick B Paul and Peter C Borer who are directors of the Company have each confirmed that they had no interests in the shares of the Company as at the Latest Practicable Date.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which he is taken or deemed to have under such provision of the Securities and Futures Ordinance), or are required pursuant to Section 352 of the Securities and Futures Ordinance to be entered in the register referred to therein, or are required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

**Interests of shareholders**

So far as is known to any director or chief executive of the Company, as at the Latest Practicable Date, shareholders (other than a director or chief executive of the Company) who have an interest or short position in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or which were recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance, or had otherwise notified to the Company, or any director or chief executive of the Company who was, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such director's or chief executive's interest in such securities, together with particulars of any options in respect of such capital, were as follows:

*Long position in shares*

## (a) Substantial Shareholders

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Bermuda Trust Company Limited	Interest of controlled corporation	771,237,771	55.000
Esko Limited	Interest of controlled corporation	420,468,740	29.985
Hesko Limited	Interest of controlled corporation	420,468,740	29.985
New Xenon Holding Corporation	Trustee	365,947,707	26.097
Mikado Holding Inc.	Trustee	281,531,356	20.077
Mikado Investments Limited	Interest of controlled corporation	281,531,356	20.077

These interests are duplicated to the extent of 1,769,947,899 shares. The net total of 771,237,771 shares reflects duplication of various directors' interests as recorded above.

## (b) Other Shareholders

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Marathon Asset Management Ltd.	Investment Manager	70,382,432	5.019

Apart from the foregoing, the Company has not been notified of any shareholder (other than a director or chief executive of the Company) who has an interest or short position in the shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or which were required to be recorded in the register required to be kept under Section 336 of the Securities and Futures Ordinance or of any director or chief executive of the Company who was, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such director's or chief executive's interest in such securities, together with particulars of any options in respect of such capital.

### COMPETING INTERESTS

None of the Directors and their respective associates has any competing interests which need to be disclosed pursuant to Rules 8.10 of the Listing Rules.

### SERVICE CONTRACTS

None of the Directors has entered into or is proposing to enter into a service contract with any member of the Group which is not expiring or determinable within one year without payment of compensation (other than statutory compensation).

### LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claims of material importance are pending or threatened by or against any member of the Group.

### MISCELLANEOUS

- (a) The registered office of the Company is situated at 8th Floor, St. George's Building, 2 Ice House Street, Central, Hong Kong.
- (b) The company secretary of the Company is Christobelle Yi Ching Liao, solicitor of Hong Kong.
- (c) The auditors of the Company are KPMG of 8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong. The qualified accountants of the Company are Clement Kwok, C.A. and Eymon Tsang, FCCA, FCPA.
- (d) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (e) The English version of this circular shall prevail over the Chinese text.