

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

SALE OF THE KOWLOON HOTEL

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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;
“Agreement”	the Agreement relating to the sale and purchase of the entire issued share capital of KHL and the Debts dated 4th December 2004 between HSH Holdings, the Purchaser, the Company and the Purchaser’s Guarantors;
“Board”	the board of Directors;
“the Company”	The Hongkong and Shanghai Hotels, Limited;
“Completion”	the completion of the sale and purchase of the Sale Shares and the assignment of the Debts pursuant to the Agreement;
“Completion Accounts”	a set of audited accounts of KHL to be prepared for the period from 1st January 2004 up to 5:00 a.m. on the date of Completion;
“Consideration”	HK\$1,930,000,000, representing the consideration for the sale and purchase of the Sale Shares and the assignment of the Debts (subject to adjustment);
“CKH”	Cheung Kong (Holdings) Limited, a company listed on the Stock Exchange;
“Debts”	the sum of the debts owing by KHL to the Company and HSH Finance as at Completion. As at 31st October 2004, KHL owed HK\$379 million to the Company and HK\$281 million to HSH Finance respectively;
“Directors”	the directors of the Company;
“Group”	the Company and its subsidiaries;
“HIL”	Hutchison International Limited, a wholly-owned subsidiary of Hutchison Whampoa Limited;
“HKAS”	the Hong Kong Accounting Standards;
“HSH Finance”	HSH Finance Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong;

DEFINITIONS

“HSH Holdings”	HSH Holdings Limited, a wholly-owned subsidiary of the Company incorporated in Hong Kong;
“KHL”	The Kowloon Hotel Limited, a wholly-owned subsidiary of HSH Holdings incorporated in the Bahamas. It is a special purpose vehicle which holds only The Kowloon Hotel and assets in relation thereto;
“Latest Practicable Date”	16th December 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;
“Property”	the land on which The Kowloon Hotel is located and all building and structures erected thereon;
“Purchaser”	Swingfield Developments Limited, a company incorporated in the British Virgin Islands, owned jointly and indirectly by CKH and Hutchison Whampoa Limited;
“Purchaser’s Guarantors”	CKH and HIL;
“Sale Shares”	5 shares of US\$1.00 each of KHL; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.

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,

23rd December 2004

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION SALE OF THE KOWLOON HOTEL

On 4th December 2004, HSH Holdings, the Purchaser, the Purchaser's Guarantors and the Company entered into the Agreement whereby HSH Holdings agreed to sell and the Purchaser agreed to purchase the entire issued share capital of KHL, the owner of The Kowloon Hotel. HSH Holdings also agreed to procure each of the Company and HSH Finance to assign to the Purchaser the Debts owing to each of them in total by KHL on Completion. The Consideration for the sale and purchase of the Sale Shares and the assignment of the Debts is HK\$1,930,000,000, subject to adjustment referred to below.

LETTER FROM THE BOARD

The Agreement constitutes a discloseable transaction of the Company under the Listing Rules.

The Agreement

Vendor: HSH Holdings Limited

Purchaser: Swingfield Developments Limited

Purchaser's Guarantors: Cheung Kong (Holdings) Limited and Hutchison International Limited, as several guarantors for the Purchaser's obligations under the Agreement

Vendor's Guarantor: the Company, as guarantor for the HSH Holdings obligations under the Agreement

Date: 4th December 2004

Asset to be sold:

HSH Holdings agreed to sell all of the Sale Shares and to procure the Company and HSH Finance to assign the Debts to the Purchaser at the Consideration.

Consideration:

HK\$1,930,000,000, which was arrived at after arm's length negotiations following a bidding process.

The Consideration is subject to adjustment based on the net asset value (other than the value of the Property, those assets constituting plant and machinery equipment and fixtures affixed and integrated thereto and the Debts) of KHL shown in the Completion Accounts. The Completion Accounts shall be prepared within 1 month of Completion.

At the earliest, the adjustment to the Consideration (if any) will take place within 7 days thereafter.

The Company does not expect that any adjustment to the Consideration would result in the disposal becoming a major transaction under the Listing Rules, and agrees to comply with the Listing Rules if and when required.

Payment terms

The Purchaser has paid a cash deposit of HK\$193,000,000, being part payment of the Consideration. The Purchaser will pay the balance of the Consideration (being HK\$1,737,000,000) in cash to HSH Holdings on Completion.

LETTER FROM THE BOARD

Completion

Completion will take place on 1st February 2005 or such other day as HSH Holdings and the Purchaser may agree in writing. There is no condition precedent to Completion.

Guarantees

The Purchaser's Guarantors have agreed to guarantee the obligations of the Purchaser (including its payment obligation) on a several basis under the Agreement. The Company has agreed to guarantee the obligations of HSH Holdings under the Agreement.

Information on KHL

KHL is the owner of The Kowloon Hotel and is an indirect wholly-owned subsidiary of the Company. After the disposal, the Company will cease to hold any interest in KHL, and KHL will cease to be a subsidiary of the Company.

The net asset value of KHL as set out in its audited accounts for the year ended 31st December 2003 was HK\$510.5 million. The net profits of KHL both before and after taxation for year ended 31st December 2002 are HK\$43.3 million and HK\$34.6 million respectively. The net profits of KHL both before and after taxation for year ended 31st December 2003 are HK\$34.7 million and HK\$29 million respectively.

It is expected that, after the disposal, the Company would realise an estimated special gain of approximately HK\$800 million, being the difference between the Consideration (less expenses) and the carrying value or cost of net assets (excluding the Debts) of KHL, which amounted to HK\$1,100 million as at 31st October 2004. This special gain may be adjusted when recognised in the Company's income statement for the financial year commencing 1st January 2005 and ending 31st December 2005 as a result of the adoption of HKAS 16 and 40 on 1st January 2005.

Immediately after the disposal, it is expected that the total asset value of the Company will be increased by approximately HK\$700 million, and the immediate effect on the liabilities of the Company will be insignificant.

Reasons and benefits for the disposal of KHL and use of proceeds

The Company is principally engaged in the ownership and management of prestigious hotels, commercial and residential properties in key destinations in Asia and the USA. It is the owner and operator of The Peninsula Hotels.

The disposal of KHL allows the Company to focus its resources on developing and marketing its principal businesses of hotels under the Peninsula brand and property ownership and management.

LETTER FROM THE BOARD

The proceeds from the disposal will be used in the development of new hotels and the continuing refurbishment or renovation of some of the Company's existing hotel and other property interests. These projects include the development of The Peninsula Tokyo and The Peninsula Shanghai. In addition to the utilisation of the funds for the above purposes, the proceeds will be applied towards reducing bank borrowings and effectively managing the Company's cost of funding.

The Directors consider the terms and conditions of the Agreement to be fair and reasonable and in the interests of the Company and its shareholders as a whole. Based on the 736 guest rooms in The Kowloon Hotel, the consideration represents a price of HK\$2.6 million per room.

Information on the Purchaser and the Purchaser's Guarantors

The Purchaser is an investment holding company ultimately owned by the Purchaser's Guarantors. CKH is an investment holding company listed on the Stock Exchange, and HIL a subsidiary of Hutchison Whampoa Limited, which is a conglomerate listed on the Stock Exchange. The Company's Chairman Dr The Hon. Michael D Kadoorie is an independent non-executive director of Hutchison Whampoa Limited and Mr. William E Mocatta is the alternate director for Dr The Hon. Michael D Kadoorie on the board of Hutchison Whampoa Limited. Save for the above, the Purchaser and the Purchaser's Guarantors 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.

The Directors understand that the Purchaser intends to continue running The Kowloon Hotel as a hotel subsequent to acquisition.

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	<i>Note (c)</i>	19,639,332	1.401
Clement K M Kwok	Beneficial Owner	600,000	0.043
Sir Sidney Gordon	<i>Notes (c) and (d)</i>	88,773,007	6.331
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
Peter C Borer	Beneficial Owner	25,000	0.002

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 discretionary objects.

- (ii) 281,531,356 shares were held by a discretionary trust, of which Dr The Hon. Michael D Kadoorie is one of the discretionary objects and the founder.

For the purpose of the Securities and Futures Ordinance, the spouse of Dr The Hon. Michael D Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 281,531,356 shares referred to in (a)(ii). The interest disclosed by the spouse of Dr The Hon. Michael D Kadoorie are those of Dr The Hon. Michael D Kadoorie which are attributed to her pursuant to the Securities and Futures Ordinance for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in those shares.

- (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 discretionary objects.
 - (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 discretionary objects.
- (c) Sir Sidney Gordon and Mr Ian D Boyce are two of the joint trustees of trusts which indirectly hold 19,439,332 shares. Dr The Hon. Michael D Kadoorie and Mr Ronald J McAulay are two of the discretionary objects of the trusts and their interests are duplicated by the interests referred to in Notes (a) and (b). Mr Ian D Boyce holds 200,000 shares in personal capacity.
- (d) Sir Sidney Gordon, in his capacity as trustee of a charitable trust which is an ultimate unitholder of a unit trust which holds the 69,237,675 shares referred to in Note (b)(ii), was deemed to be interested in the 69,237,675 shares. Sir Sidney Gordon holds 96,000 shares in personal capacity.

Messrs James S Dickson Leach, Robert W Miller and Patrick B Paul 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	Trustee	771,237,771	55.000(iv)
Esko Limited	Controlled corporation of Bermuda Trust Company Limited/ beneficiary of trusts	420,468,740	29.985(i)
Hesko Limited	Controlled corporation of Bermuda Trust Company Limited/ beneficiary of trusts	420,468,740	29.985(i)
New Xenon Holding Corporation	Trustee	365,947,707	26.097(ii)
Mikado Holding Inc.	Trustee	281,531,356	20.077(iii)
Mikado Investments Limited	Controlled corporation of Bermuda Trust Company Limited/ beneficiary of trusts	281,531,356	20.077(iii)

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 in the section "Interests of directors and chief executive" of this Appendix.

Notes:

- (i) The interests of Esko Limited and Hesko Limited duplicated with each others'.
- (ii) The 420,468,740 shares in which Esko Limited and Hesko Limited were deemed to be interested as beneficiaries comprises the 365,947,707 shares in which New Xenon Holding Corporation was deemed to be interested as trustee.
- (iii) The 281,531,356 shares in which Mikado Investments Limited was deemed to be interested as a beneficiary comprises the 281,531,356 shares in which Mikado Holding Inc. was deemed to be interested as trustee.
- (iv) The 771,237,771 shares in which Bermuda Trust Company Limited were deemed to be interested as a trustee comprises the 420,468,740 shares in which Esko Limited and Hesko Limited were deemed to be interested and the 281,531,356 shares in which Mikado Investments Limited was deemed to be interested.

(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 or 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 Rule 8.10 of the Listing Rules.

SERVICE CONTRACTS

None of the Directors has entered into nor 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.