

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 or otherwise transferred all your shares in The Hongkong and Shanghai Hotels, Limited (the "Company"), you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**SCRIP DIVIDEND SCHEME IN RELATION TO
THE 2004 FINAL DIVIDEND**

7 May 2005

DEFINITIONS

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

“2004 Final Dividend”	the final dividend of HK\$0.09 per Share for the year ended 31 December 2004 payable on or about 31 May 2005 to Shareholders whose names were recorded on the register of members of the Company as at the Record Date
“Annual General Meeting”	the annual general meeting of the Company held in the Salisbury Room, The Peninsula, Salisbury Road, Kowloon, Hong Kong on Thursday, 5 May 2005
“Board”	the board of Directors
“Company”	The Hongkong and Shanghai Hotels, Limited
“Director(s)”	the director(s) of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“New Share(s)”	new Share(s) to be issued under the Scrip Dividend Scheme
“Overseas Shareholders”	Shareholders who are resident in jurisdictions outside Hong Kong
“PRC”	the People’s Republic of China
“Record Date”	the close of business (4:00 p.m.) on Thursday, 5 May 2005
“Scrip Dividend Scheme”	the scrip dividend alternative announced by the Company on 1 March 2005 which offers Shareholders a scrip alternative whereby Shareholders may elect to receive their 2004 Final Dividend wholly or partly by the allotment of New Shares credited as fully paid in lieu of cash
“Share(s)”	ordinary share(s) of par value HK\$0.50 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)

DEFINITIONS

“the Stock Exchange”

The Stock Exchange of Hong Kong Limited

“United States”

The United States of America, its territories and possessions, any State of the United States, and the District of Columbia

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*

7 May 2005

To the Shareholders,

Dear Sir or Madam,

SCRIP DIVIDEND SCHEME IN RELATION TO THE 2004 FINAL DIVIDEND

INTRODUCTION

The Company announced on 1 March 2005 that the 2004 Final Dividend would be paid to Shareholders whose names appeared on the register of members of the Company at the Record Date. Such Shareholders may elect to receive the 2004 final Dividend in the

LETTER FROM THE BOARD

form of New Shares in lieu of cash. The last day on which transfers were accepted for registration for participation in the Scrip Dividend Scheme was 29 April 2005. At the Annual General Meeting held on Thursday, 5 May 2005, the 2004 Final Dividend was approved. The purpose of this circular is to set out the procedures and conditions which apply in relation to the Scrip Dividend Scheme and the action which should be taken by Shareholders if they wish to participate in the Scrip Dividend Scheme.

DETAILS OF THE SCRIP DIVIDEND SCHEME

Shareholders may elect to receive the 2004 Final Dividend in one of the following ways:

- (a) a cash dividend of HK\$0.09 per Share; or
- (b) an allotment of such number of New Shares credited as fully paid and having an aggregate market value (calculated as described below), save for adjustment for fractions, equal to the total amount of 2004 Final Dividend which such Shareholder would otherwise be entitled to receive in cash; or
- (c) partly in cash and partly in New Shares.

The New Shares will rank pari passu in all respects with the existing issued Shares except that they shall not rank for the 2004 Final Dividend.

BASIS OF ALLOTMENT OF THE NEW SHARES

For the purpose of calculating the number of New Shares to be allotted pursuant to the Scrip Dividend Scheme, the price of a New Share will be HK\$7.62, which is the average value of the closing prices of one Share on the Stock Exchange on each of the five consecutive trading days ended 5 May 2005. Accordingly, the number of New Shares which a Shareholder electing for New Shares will receive will be calculated as follows:

$$\begin{array}{rcccl} \text{Number of} & & \text{Number of Shares held on} & & \\ \text{New Shares to} & = & \text{Record Date for which election} & \times & \frac{\text{HK\$0.09}}{\text{HK\$7.62}} \\ \text{be received} & & \text{for New Shares is made} & & \end{array}$$

The last day on which Shareholders will be entitled to select their desired form of dividends is 24 May 2005. The number of New Shares to be received will be rounded down to the nearest whole number of New Shares. Fractional entitlements to New Shares in respect of alternatives (b) and (c) above will not be issued to Shareholders but will be disregarded and the benefit thereof will accrue to the Company.

LETTER FROM THE BOARD

ADVANTAGES OF THE SCRIP DIVIDEND SCHEME

The Scrip Dividend Scheme will give Shareholders an opportunity to increase their investment in the Company at market value without incurring brokerage fees, stamp duty and related dealing costs. The Scrip Dividend Scheme will also benefit the Company to the extent that such cash which would otherwise have been paid to Shareholders who elect to receive the New Shares in whole or in part in lieu of a cash dividend will be retained for use as working capital by the Company.

EFFECT OF THE SCRIP DIVIDEND SCHEME

Based on 1,406,767,622 Shares in issue as at the close of business on 5 May 2005, if no elections for the New Shares were received, the total cash dividend payable by the Company would be HK\$126,609,085.98. If all Shareholders elected to receive all of their entitlement to the 2004 Final Dividend in the form of New Shares, the maximum number of New Shares to be issued would be 16,615,365 Shares representing 1.18% of the existing and 1.17% of the enlarged issued share capital of the Company.

Shareholders should note that the New Shares may give rise to notification requirements under Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). **Shareholders who are in any doubt as to how these provisions may affect them are recommended to seek their own professional advice. Shareholders who are in any doubt as to their taxation position are also recommended to seek their own professional advice.**

ELECTION FORM

If you wish to receive your 2004 Final Dividend wholly in cash, you do not need to take any action.

If you elect to receive your 2004 Final Dividend wholly in New Shares, or partly in cash and partly in New Shares, you should use the enclosed election form. If you sign the election form but do not specify the number of Shares in respect of which you wish to receive New Shares, or if you elect to receive New Shares in respect of a greater number of Shares than your registered holding as at the Record Date, you will be deemed to have exercised your election to receive New Shares in respect of all the Shares of which you were then registered as the holder.

The enclosed election form enables Shareholders to elect to receive their 2004 Final Dividend wholly or partly in New Shares. The election form also enables Shareholders to permanently elect to receive all future cash dividends in the form of new Shares in the event that the Shareholders are given the choice of receiving new Shares or cash in respect of future dividends. The permanent election will be valid provided that all the prevailing conditions required by any scrip dividend scheme offered by the Company are fulfilled. The permanent election to receive all future dividends, if offered, in the form of new

LETTER FROM THE BOARD

Shares, can be revoked by the Shareholder sending notice in writing to the Company's share registrars whose address is set out below.

The election form should be completed in accordance with the instructions printed on it and returned to the Company's share registrars so as to be received no later than 4:00 p.m. on 24 May 2005 at:

**Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong**

Elections in respect of the 2004 Final Dividend cannot be in any way withdrawn, revoked, superseded or altered after the relevant forms of election are signed and lodged with the Company's share registrars. No acknowledgement of receipt of the election form will be issued.

SHAREHOLDERS RESIDENT OUTSIDE HONG KONG

The participation in the Scrip Dividend Scheme by Overseas Shareholders may be affected by the laws of their relevant jurisdictions. Overseas Shareholders should inform themselves about and observe any applicable restrictions and should consult their professional advisers as to whether any governmental or other consents are required or other formalities need to be observed to enable them to participate in the Scrip Dividend Scheme.

Overseas Shareholders receiving this circular and/or election form outside Hong Kong may not treat the same as an invitation to participate in the Scrip Dividend Scheme unless such invitation could lawfully be made to them without having to comply with any registration or other legal requirements in the relevant territory. In such circumstances, this circular and the election form will be deemed to have been sent for information purposes only.

The Company has made enquiries in the relevant jurisdictions regarding the feasibility of extending the Scrip Dividend Scheme to Shareholders with registered addresses outside Hong Kong and related legal and regulatory restrictions and requirements. Since registration or filing or other procedures or formalities, subject to certain exceptions, would need to be carried out in relation to the Scrip Dividend Scheme to comply with the relevant securities legislation or regulation in Australia, Canada, the Republic of Ireland and the United States, the Directors have formed the view that it would be expedient to exclude from the Scrip Dividend Scheme Shareholders with registered addresses in Australia, Canada, the Republic of Ireland and the United States. Therefore this circular has been sent to Shareholders in Australia, Canada, the Republic of Ireland and the United States for information only and no election form has been sent to such Shareholders. Shareholders resident in Australia, Canada, the Republic of Ireland or the United States will receive the 2004 Final Dividend in cash.

LETTER FROM THE BOARD

This circular and the election form do not constitute or form part of an offer or solicitation of any offer to buy securities of the Company, and the election form is non transferable.

Overseas Shareholders who are in any doubt as to their position should consult their own appropriately authorised professional advisers without delay.

STOCK EXCHANGE LISTING, CLEARING AND SETTLEMENT

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Shares. It is expected that the certificates for the New Shares, and cheques for cash entitlements, will be posted to Shareholders at the risk of those entitled thereto on or about 31 May 2005 on which date dealings in the New Shares are expected to commence. Subject to the granting of listing of, and permission to deal in, New Shares issued pursuant to the Scrip Dividend Scheme on the Stock Exchange, such New Shares will be accepted as eligible securities by Hong Kong Securities Clearing Company Limited for deposit, clearance and settlement in the Central Clearing and Settlement System. Shareholders should seek the advice of their licensed securities dealer or other professional adviser for details of these settlement arrangements and how such arrangements will affect their rights and interests.

The Shares are listed, and dealt in, on the Stock Exchange. No equity or debt securities of the Company are listed, or dealt in, on any other stock exchange nor is listing, or permission to deal in, on any other exchange being, or proposed to be, sought.

CONDITION OF THE SCRIP DIVIDEND SCHEME

The Scrip Dividend Scheme is conditional upon the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the New Shares.

GENERAL

Whether or not it is to your advantage to receive cash or New Shares, in whole or in part, depends upon your own individual circumstances, and the decision in this regard and all effects resulting from that decision are your responsibility. If you are in any doubt as to what to do, you should consult your professional advisers as to the action you should take and whether or not you are permitted to receive the 2004 Final Dividend in scrip form or if any government or other consent is required. Shareholders who are trustees are recommended to take professional advice as to whether electing for New Shares is within their powers and as to its effect having regard to the terms of the relevant trust instrument.

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