

DIRECTORS' REPORT

The directors have pleasure in submitting their report together with the audited consolidated income statement for the year ended 31 December 2004 and the audited balance sheets of the company and the group at that date.

Principal activities

The principal activity of the company is investment holding and the principal activities of its subsidiaries are the ownership and management of hotel, retail, commercial and residential properties in Asia and the United States of America.

Performance

A discussion and analysis of the group's performance during the year, the material factors underlying its results and financial position, and details of the group's principal activities are provided in the financial review on pages 52 to 65.

Ten year operating and financial summaries

Summaries of the group's operating and financial data for the last ten years are set out on pages 8 and 66.

Share capital

There was no movement in the share capital of the company during the year ended 31 December 2004. However, the company will issue 5,500,131 new shares at HK\$5.855 per share to certain shareholders of Manila Peninsula Hotel, Inc. who have accepted the offer referred to in the announcement dated 25 February 2005. All ordinary shares to be issued will rank pari passu in all respects with the existing issued shares.

Dividends

An interim dividend of 3 cents per share was paid during the year 2004. The directors have recommended a final dividend of 9 cents per share. Subject to the passing of the necessary resolution at the forthcoming annual general meeting, such dividend will be payable on or about 31 May 2005 to shareholders whose names appear on the register of members on 5 May 2005, with a scrip dividend alternative.

Principal subsidiaries

Particulars of principal subsidiaries of the company are set out on page 126.

Fixed assets, hotel and investment properties

Movements in fixed assets during the year and details of the group's hotel and investment properties are set out in note 10 to the financial statements.

Capitalised interest

Interest amounting to HK\$2 million was capitalised by the group during the year as set out in note 4 to the financial statements.

Reserves

Reserves available for distribution to shareholders and movements in the reserves of the company and the group during the year are set out in note 22 to the financial statements.

Purchase, sale and redemption of listed securities

There was no purchase, sale or redemption of the company's listed securities during the year.

Borrowings

Particulars of all borrowings are set out in note 19 to the financial statements.

Charitable donations

Donations made by the group for charitable purposes during the year amounted to HK\$81,000.

Major customers and suppliers

The diversity and nature of the group's activities are such that the percentage of sales or purchases attributable to the group's five largest customers or suppliers is significantly less than thirty per cent of the total and the directors do not consider any one customer or supplier to be influential to the group.

Connected transactions

Details of connected transactions disclosed under the Listing Rules which were undertaken in the normal course of business are set out in note 29 to the financial statements.

Directors

Biographical details of the directors in office at the date of this report are shown on pages 42 and 43. All the directors held office for the whole of 2004 with the exception of Mr Patrick B Paul who was appointed an independent non-executive director on 26 February 2004 and Mr Peter C Borer who was appointed an executive director and chief operating officer on 15 April 2004.

In accordance with the articles of association of the company, Messrs William E Mocatta, James S Dickson Leach, Pierre R Boppe and Robert W Miller will retire by rotation at the forthcoming annual general meeting and will offer themselves for re-election. In addition, Mr Clement K M Kwok was reappointed as a director at the company's 2002 Annual General Meeting and will retire voluntarily at the forthcoming annual general meeting in accordance with the company's articles of association, and being eligible, will offer himself for re-election.

None of the aforementioned directors proposed for re-election at the forthcoming annual general meeting has a service contract with the company or any of its subsidiaries which is not determinable by the company within one year without payment of compensation, other than statutory compensation.

Alternate directors

Dr Kadoorie, Mr Mocatta and Mr McAulay have appointed Mr Dickson Leach as their alternate. Mr Dickson Leach and Sir Sidney Gordon have appointed Mr Mocatta and Dr Kadoorie respectively as their alternates.

Interest of directors and chief executive

As at 31 December 2004, the interests and short positions of each director and the 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 ("SFO"), recorded in the register required to be kept under section 352 of the SFO, or 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 of the company and its associated corporations

	Capacity	Number of shares held in the company	% of the issued share capital of the company
Dr The Hon. Michael D Kadoorie	Note (a)	702,000,096	50.062
Mr Ian D Boyce	Note (b)	19,639,332	1.401
Mr Clement K M Kwok	Beneficial Owner	600,000	0.043
Sir Sidney Gordon	Notes (b) and (c)	88,773,007	6.331
Mr Ronald J McAulay	Note (d)	489,706,415	34.923
Mr William E Mocatta	Note (e)	1,017,000	0.073
Dr The Hon. David K P Li	Beneficial Owner	500,000	0.036
Mr Robert C S Ng	Family	119,166	0.008
Mr Pierre R Boppe	Beneficial Owner	150,000	0.011
Mr C Mark Broadley	Beneficial Owner	200,000	0.014
Mr Peter C Borer	Beneficial Owner	25,000	0.002

Notes:

- (a) *Dr The Hon. Michael D Kadoorie was deemed (by virtue of the SFO) 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 SFO, 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 is that of Dr The Hon. Michael D Kadoorie which is attributed to her pursuant to the SFO for disclosure purposes. Nevertheless, she has no interest, legal or beneficial, in those shares.*
- (b) *Sir Sidney Gordon and Mr Ian D Boyce are two of the joint trustees of trusts which indirectly hold 19,439,332 shares in the company. 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 (d). Mr Ian D Boyce holds 200,000 shares in his personal capacity.*
- (c) *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 (d)(ii), was deemed to be interested in the 69,237,675 shares. Sir Sidney Gordon holds 96,000 shares in his personal capacity.*
- (d) *Mr Ronald J McAulay was deemed (by virtue of the SFO) 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.*
- (e) *William E Mocatta is the founder of a discretionary trust which is the ultimate owner of the 1,017,000 shares.*

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 31 December 2004.

As at 31 December 2004, by virtue of their deemed interests in the shares of the company under the SFO as described above and as directors of the company, Dr The Hon. Michael D Kadoorie and Mr Ronald J McAulay are deemed to be interested in the securities of subsidiaries and associated companies of the company held through the company.

Except as set out above, as at 31 December 2004 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 SFO, recorded in the register required to be kept under section 352 of the SFO, or 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 the chief executive of the company, as at 31 December 2004, shareholders (other than a director or the chief executive of the company) who have an interest or short position in the shares and underlying shares of the company as recorded in the register required to be kept under section 336 of the SFO, 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(i)
Esko Limited	Controlled corporation of Bermuda Trust Company Limited/beneficiary of trusts	420,468,740	29.985(ii)
Hesko Limited	Controlled corporation of Bermuda Trust Company Limited/beneficiary of trusts	420,468,740	29.985(ii)
New Xenon Holding Corporation	Trustee	365,947,707	26.097(iii)
Mikado Holding Inc.	Trustee	281,531,356	20.077(iv)
Mikado Investments Limited	Controlled corporation of Bermuda Trust Company Limited/beneficiary of trusts	281,531,356	20.077(iv)

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 set out in the section "Interests of directors and chief executive" of this report.

Notes:

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

(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

Except as set out above, as at 31 December 2004 the company had not been notified of any shareholder (other than a director or chief executive of the company) who had an interest or short position in the shares or underlying shares of the company that were recorded in the register required to be kept under section 336 of the SFO.

Directors' interests in contracts

No contract of significance to which the company, its subsidiaries or fellow subsidiaries was a party, and in which a director of the company had a material interest, subsisted as at 31 December 2004 or at any time during the year.

Independent non-executive directors

The company has received from Dr The Hon. David K P Li, Mr Robert C S Ng, Mr Robert W Miller and Mr Patrick B Paul, independent non-executive directors, written confirmations of independence pursuant to rule 3.13, independence guidelines, of the Listing Rules. The company considers all the independent non-executive directors to be independent.

Directors' interests in competing business

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.

Share option scheme

The company has not adopted any share option scheme during the year.

Employee retirement plan

Details of the group's employee retirement plan are shown in note 26 to the financial statements.

Emoluments policy

Details of the group's emoluments policy are provided in the corporate governance section (page 71). The group does not have any long-term incentive schemes other than the retirement scheme described under the employee developments and benefits section (page 46) and in note 26 to the financial statements. The basis of determining the emoluments payable to the directors is set out in the corporate governance section on page 71 and in note 24 to the financial statements.

Corporate governance

The corporate governance section is set out on pages 68 to 73.

Directors' responsibilities for the financial statements

The directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the group and of the results and cash flows for that period. In preparing these financial statements for the year ended 31 December 2004, the directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group.

Code for dealing in company's securities by directors

In February 2004, the company adopted its Code for Dealing in the Company's Securities by Directors pursuant to the Stock Exchange's Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the amended Listing Rules which came into effect on 31 March 2004.

In December 2004, Dr The Hon. Michael D Kadoorie, Mr Ian D Boyce, Sir Sidney Gordon and Mr Ronald J McAulay advised the company that due to an oversight, a number of filings required under the SFO and related notifications to the company were not made within the prescribed time limit. These filings primarily related to a complex trust restructuring, during the course of which no outside consideration was involved and the overall number of securities in the company held by Kadoorie Family interests and their associated individuals or entities remained the same.

As soon as the directors concerned became aware of this oversight, they brought the matter to the attention of the company, the Stock Exchange and the Securities and Futures Commission. The relevant filings were made with the Stock Exchange and the company. These were then placed on the Exchange's website and in the company's Registers of Interests of Directors and Substantial Shareholders.

The company has been informed that the directors concerned are taking steps to prevent such late filings from happening in the future including the implementation of a new disclosure support system.

Apart from the foregoing, the company has received written confirmation from each of the directors confirming that they have complied with the company's Code for Dealing throughout the year.

Public float

As at 1 March 2005, the latest practicable date, based on information that is publicly available to the company and within the knowledge of the directors, at least 25% of the company's total issued share capital is held by the public.

Loan agreements with covenants relating to specific performance of the controlling shareholder
The company has not entered into any new loan agreements containing any covenant relating to specific performance of the controlling shareholder which is required to be disclosed in accordance with rule 13.18 of the Listing Rules.

Auditors

A resolution for the reappointment of KPMG as auditors will be proposed at the forthcoming annual general meeting.



By Order of the Board
Christobelle Liao
Company Secretary
Hong Kong, 1 March 2005