

DIRECTORS' REPORT

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries, associates, and jointly controlled entity are the ownership and management of hotel, retail, commercial and residential properties in Asia, the United States of America and Europe.

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 72.

TEN YEAR OPERATING AND FINANCIAL SUMMARIES

Summaries of the Group's key operating and financial data for the last ten years are set out on pages 94 to 96.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2009 and the state of the Company's and the Group's affairs as at that date are set out in the Financial Statements on pages 97 to 171.

SHARE CAPITAL

On 19 June 2009 and 6 November 2009, pursuant to scrip dividend schemes, the Company issued and allotted 16,687,852 shares and 3,441,218 shares respectively at an issue price of HK\$6.888 and HK\$10.344 per share to the shareholders who elected to receive shares of the Company in lieu of cash for the 2008 final and 2009 interim dividends in respect of the year ended 31 December 2008 and the six months ended 30 June 2009, respectively. All ordinary shares issued rank pari passu in all respects with the existing issued shares.

Save as described above, there were no other changes in the share capital of the Company. Particulars of the share capital of the Company during the year are set out in note 27 to the Financial Statements.

DIVIDENDS

An interim dividend of 3 HK cents per share in respect of the year ending 31 December 2009 was paid during the year 2009. The Directors have recommended a final dividend of 6 HK cents per share. Subject to the approval by shareholders at the forthcoming Annual General Meeting to be held at The Peninsula Hong Kong on 12 May 2010 at 12 noon, such dividend will be payable on or about 25 June 2010 to shareholders whose names appear on the register of members on 12 May 2010. The register of members will be closed from 10 May 2010 to 12 May 2010, both days inclusive, during which period no transfer of shares can be registered.

To be entitled to receive the final dividend, shareholders must ensure that all transfer documents accompanied by the relevant share certificates are lodged with the Company's registrar, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 7 May 2010.

The final dividend will be payable in cash but shareholders will have the option of receiving the final dividend in cash or in the form of new shares in respect of part or all of such dividend. The new shares to be issued pursuant to the scrip dividend scheme are subject to their listing being granted by the Listing Committee of the Stock Exchange.

A circular containing details of this scrip dividend scheme will be dispatched to shareholders together with an election form for the scrip dividend on or about 24 May 2010.

PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Company are set out on pages 133 to 135 and 203.

FIXED ASSETS

Movements in fixed assets during the year are set out in note 14 to the Financial Statements.

CAPITALISED INTEREST

The amount of interest capitalised by the Group in 2009 and 2008 was insignificant.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity and note 28(a) to the Financial Statements respectively. Reserves available for distribution to shareholders are disclosed in note 28(c) 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 26 to the Financial Statements

CHARITABLE DONATIONS

Donations made by the Group for charitable purposes during the year amounted to HK\$1,689,056 (2008: HK\$3,047,518).

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 30% of the total and the Directors do not consider any one customer or supplier to be influential to the Group.

CONNECTED TRANSACTIONS

The Board has reviewed all connected transactions of the Company and the following is required to be disclosed under the Listing Rules:

Continuing connected transaction

The Peninsula Manila is owned by Manila Peninsula Hotel, Inc. (MPHI) which was a 40% associate of the Group prior to 3 March 2005. MPHI became a subsidiary of the Company on 3 March 2005 following the completion of an offer made to the shareholders as announced on 29 October 2004. The Peninsula Manila is situated on a piece of land owned by Ayala Hotels, Inc. (Ayala), an associate of a Director of MPHI. Ayala is entitled to receive rental from MPHI based on 5% of the gross income of MPHI pursuant to a land lease contract dated 2 January 1975 with an initial term from 31 December 1975 to 31 December 2001 and as extended to 31 December 2027. The lease became a continuing connected transaction as defined under the Listing Rules following the completion of the offer. An announcement of the continuing connected transaction was made on 8 July 2005. The amount of the rent paid to Ayala under the lease for 2009 was HK\$9.4 million (2008: HK\$10.5 million).

The Directors, including all the Independent Non-Executive Directors, have reviewed the above continuing connected transaction and confirmed that the transaction:

- (i) was negotiated in 1975, by the management of MPHI at that time, is in the ordinary and usual course of business of MPHI based on normal commercial terms and on arm's length basis; and
- (ii) is beneficial and necessary for the continuation of MPHI's business and is fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company's auditor has also reviewed the continuing connected transaction described above and confirmed to the Board of Directors of the Company that based on their work performed:

- (i) the transaction had received the approval of the Company's Board of Directors;
- (ii) nothing came to their attention that caused them to believe that the connected transaction was not entered into in accordance with the terms of the related agreement governing the connected transaction; and
- (iii) the cap amount (i.e. 5% of the gross income of MPHI, as defined in the announcement dated 8 July 2005) was not exceeded during the year ended 31 December 2009.

MATERIAL RELATED PARTY TRANSACTIONS

Details of material related party transactions which were undertaken in the normal course of business are set out in note 34 to the Financial Statements.

DIRECTORS

Biographical details of the Directors in office at the date of this Report are shown on pages 46 and 47. All the Directors held office for the whole of 2009. Mr. Pierre R. Boppe, a Non-Executive Director, was re-designated as an Independent Non-Executive Director on 29 June 2009.

In accordance with the Articles of Association of the Company, The Hon. Sir Michael Kadoorie, Mr. Ian D. Boyce, Mr. Robert C.S. Ng, Mr. Patrick B. Paul and Mr. Peter C. Borer will retire at the forthcoming Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

None of the 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.

SENIOR MANAGEMENT

Biographical details of the senior management at the date of this Report are shown on page 48. Mr. Martyn P.A. Sawyer and Mrs. Maria Razumich-Zec also held office for the whole of 2009.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

As at 31 December 2009, the interests and short positions of each Director and the Chief Executive Officer 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 Issuers (the Model Code) 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
The Hon. Sir Michael Kadoorie	Note (a)	742,500,056	50.497
Mr. Ian D. Boyce	Beneficial Owner	216,696	0.015
Mr. Clement K.M. Kwok	Beneficial Owner	650,099	0.044
Mr. Peter C. Borer	Beneficial Owner	325,733	0.022
Mr. Ronald J. McAulay	Note (b)	223,101,845	15.173
Mr. William E. Mocatta	Beneficial Owner	17,000	0.001
Mr. John A.H. Leigh	Note (c)	76,029,158	5.171
Dr. The Hon. Sir David K.P. Li	Beneficial Owner	552,146	0.038
Mr. Robert C.S. Ng	Family	126,083	0.009
Mr. Pierre R. Boppe	Beneficial Owner	150,000	0.010

Notes:

(a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 742,500,056 shares in the Company. These shares were held in the following capacity:*

- (i) *149,109,947 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;*
- (ii) *305,039,115 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder; and*
- (iii) *288,350,994 shares were ultimately held by a discretionary trust, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and the founder.*

For the purpose of the SFO, the spouse of The Hon. Sir Michael Kadoorie was taken to have a duty of disclosure in Hong Kong in relation to the 742,500,056 shares referred to in Note (a). The interest disclosed by the spouse of The Hon. Sir Michael Kadoorie is that of The Hon. Sir Michael 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) *Mr. Ronald J. McAulay was deemed (by virtue of the SFO) to be interested in 223,101,845 shares in the Company. These shares were held in the following capacity:*

- (i) *149,109,947 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects; and*
- (ii) *73,991,898 shares were ultimately held by a discretionary trust, of which Mr. Ronald J. McAulay, his wife and members of his family are discretionary objects.*

(c) *Mr. John A.H. Leigh was deemed (by virtue of the SFO) to be interested in 76,029,158 shares in the Company. These shares were held in the following capacity:*

- (i) *73,991,898 shares were ultimately held by a discretionary trust. Mr. John A.H. Leigh was deemed to be interested in such 73,991,898 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 73,991,898 shares; and*
- (ii) *2,037,260 shares were ultimately held by a discretionary trust. Mr. John A.H. Leigh was deemed to be interested in such 2,037,260 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 2,037,260 shares.*

Messrs. Neil J. Galloway, Nicholas T.J. Colfer, 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 or any of its associated corporations as at 31 December 2009.

Certain Directors held qualifying shares in MPHI, a 77.36% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 31 December 2009 none of the Directors and Chief Executive Officer 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 to be notified to the Company and the Stock Exchange.

At no time during the year was the Company, or its subsidiaries or its associates, a party to any arrangements which enabled any Director to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or of any other body corporate.

INTERESTS OF SENIOR MANAGEMENT

As at 31 December 2009, none of the senior management (other than Directors) has any interests in the shares and underlying shares of the Company.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any Director or Chief Executive Officer of the Company, as at 31 December 2009

shareholders (other than a Director or the Chief Executive Officer 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 of the Company

(a) Substantial shareholders

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Acorn Holdings Corporation	Beneficiary	149,109,947	10.141(i)
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	530,178,220	36.057(i)
Bermuda Trust (Cayman) Limited	Trustee/Interests of controlled corporations	93,363,531	6.350(iv)
Guardian Limited	Beneficiary/Interests of controlled corporations	76,029,158	5.171(v)
Harneys Trustees Limited	Interests of controlled corporations	595,427,369	40.494(ii)
Lawrencium Holdings Limited	Beneficiary	288,350,994	19.610(ii)
Lawrencium Mikado Holdings Limited	Beneficiary	305,039,115	20.745(ii)
The Magna Foundation	Beneficiary	305,039,115	20.745(ii)
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	593,390,109	40.356(ii)
Mikado Investments (PTC) Limited	Interest of controlled corporation/Beneficiary of trusts	305,039,115	20.745(i)
Muriel, Lady Kadoorie	Founder and Beneficiary	73,991,898	5.032(iv)
New Mikado Holding Inc.	Trustee	305,039,115	20.745(i)
Oak (Unit Trust) Holdings Limited	Trustee	73,991,898	5.032(i)
Oak HSH Limited	Beneficiary	73,991,898	5.032 (iv)
Mr. Richard Parsons	Trustee	76,029,158	5.171(v)

Notes:

- (i) Bermuda Trust Company Limited was deemed to be interested in the shares in which Acorn Holdings Corporation, New Mikado Holding Inc., Mikado Investments (PTC) Limited, Oak (Unit Trust) Holdings Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.
The interests of Bermuda Trust Company Limited in the shares of the Company include the shares held by discretionary trusts of which The Hon. Sir Michael Kadoorie and/or Mr. Ronald J. McAulay are among the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".
- (ii) The Mikado Private Trust Company Limited was deemed to be interested in the shares in which Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited were deemed to be interested, either in the capacity as trustee of a discretionary trust and/or by virtue of having direct or indirect control over such companies. The Magna Foundation was also deemed to be interested in the shares in which Lawrencium Mikado Holdings Limited was deemed to be interested.
The interests of The Mikado Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and a founder as disclosed in "Interests of Directors and Chief Executive Officer".
- (iii) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and another company and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.
- (iv) Bermuda Trust (Cayman) Limited was deemed to be interested in the shares in which Oak HSH Limited and other companies were deemed to be interested, either in the capacity as trustee of various discretionary trusts and/or by virtue of having direct or indirect control over such companies.
The interests of Bermuda Trust (Cayman) Limited in the shares of the Company include the shares held by a discretionary trust of which Muriel, Lady Kadoorie is a founder and a beneficiary and of which Mr. Ronald J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and Chief Executive Officer".
- (v) Mr. Richard Parsons, in his capacity as one of the trustees of a trust, controlled Guardian Limited and therefore was deemed to be interested in the shares in which Guardian Limited was deemed to be interested. Accordingly, the 76,029,158 shares in which Guardian Limited was interested was duplicated within the interests attributed to Mr. Richard Parsons and was also duplicated within the interests attributed to Mr. John A.H. Leigh as disclosed in "Interests of Directors and Chief Executive Officer".

(b) Other substantial shareholder

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Prudential plc	Investment Manager	102,631,956	6.980

Except as set out above, as at 31 December 2009 the Company had not been notified of any substantial shareholder (other than a Director or the Chief Executive Officer 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.

INTERESTS OF ANY OTHER PERSONS

As at 31 December 2009, the Company had not been notified of any persons other than the substantial shareholders who had interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under Section 336 of Part XV 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 2009 or at any time during the year.

EMPLOYEE RETIREMENT BENEFITS

Details of the Group's employee retirement benefits are shown in note 30 to the Financial Statements.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Report is set out on pages 73 to 87.

PUBLIC FLOAT

As at 12 March 2010, being the latest practicable date prior to the issue of the Annual Report, 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.

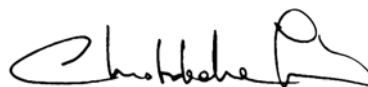
LOAN AGREEMENTS WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

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.

INDEPENDENT AUDITOR

The Financial Statements for the year have been audited by KPMG who will retire at the Annual General Meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as independent auditor will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Christobelle Liao

Company Secretary

Hong Kong, 12 March 2010