

# DIRECTORS' REPORT

The Directors have pleasure in submitting their Report together with the audited Financial Statements for the year ended 31 December 2007.

## 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 64 to 81.

## 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 106 to 108.

## Financial Statements

The profit of the Group for the year ended 31 December 2007 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 110 to 179.

## Share capital

On 15 June 2007 and 16 November 2007, pursuant to scrip dividend schemes, the Company issued and allotted 9,229,985 shares and 4,091,212 shares respectively at an issue price of HK\$12.584 and HK\$13.808 per share to the shareholders who elected to receive shares of the Company in lieu of cash for the 2006 final and 2007 interim dividends in respect of the year ended 31 December 2006 and the six months ended 30 June 2007, 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 26 to the Financial Statements.

## Dividends

An interim dividend of 6 HK cents per share in respect of the year ending 31 December 2007 was paid during the year 2007. The Directors have recommended a final dividend of 12 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 7 May 2008 at 12 noon, such dividend will be payable on or about 13 June 2008 to shareholders whose names appear on the register of members on 7 May 2008. The register of members will be closed from 5 May 2008 to 7 May 2008, 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 registrars, Computershare Hong Kong Investor Services Limited of Rooms 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, 2 May 2008.

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 14 May 2008.

### Principal subsidiaries

Particulars of the principal subsidiaries of the Company are set out on page 179.

### Fixed assets

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

### Capitalised interest

Interest amounting to HK\$9 million (2006: HK\$9 million) was capitalised by the Group during the year as set out in note 5(a) 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 27 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 25 to the Financial Statements.

### Charitable donations

Donations made by the Group for charitable purposes during the year amounted to HK\$954,380 (2006: HK\$1,163,900).

### 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 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 an MPHI Director. Ayala is entitled to receive contingent 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 contingent rent paid to Ayala under the lease for 2007 was HK\$12.2 million (2006: HK\$8.8 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 in the interests of the Company and its shareholders as a whole.

The Company's auditors have 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 2007.

### Material related party transactions

Details of material related party transactions which were undertaken in the normal course of business are set out in note 33 to the Financial Statements.

### Directors

Biographical details of the Directors in office at the date of this Report are shown on pages 54 and 55. All the Directors held office for the whole of 2007. Mr. C. Mark Broadley will resign from the Board on 31 March 2008.

In accordance with the Articles of Association of the Company, Messrs. Clement K.M. Kwok, William E. Mocatta, Pierre R. Boppe and Robert W. Miller will retire by rotation at the forthcoming Annual General Meeting and being eligible, have agreed to offer themselves for re-election.

None of the Directors to be 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 56. Mr. Martyn Sawyer held office for the whole of 2007 and Mrs. Maria Razumich-Zec was appointed as a member of the Group Management Committee on 1 May 2007.

## Interests of Directors and Chief Executive

As at 31 December 2007, 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 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)	721,327,168	50.028
Mr. Ian D. Boyce	Beneficial Owner	209,141	0.015
Mr. Clement K.M. Kwok	Beneficial Owner	627,428	0.044
Mr. C. Mark Broadley	Beneficial Owner	209,140	0.015
Mr. Peter C. Borer	Beneficial Owner	178,355	0.012
Mr. Ronald J. McAulay	Note (b)	498,721,525	34.589
Mr. William E. Mocatta	Note (c)	1,017,000	0.071
Mr. Pierre R. Boppe	Beneficial Owner	150,000	0.010
Mr. John A.H. Leigh	Note (d)	371,567,442	25.770
Dr. The Hon. Sir David K.P. Li	Beneficial Owner	532,895	0.037
Mr. Robert C.S. Ng	Family	122,758	0.009

#### Notes:

- (a) *The Hon. Sir Michael Kadoorie was deemed (by virtue of the SFO) to be interested in 721,327,168 shares in the Company. These shares were held in the following capacity:*
- (i) *426,925,755 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the beneficiaries and discretionary objects.*
- (ii) *294,401,413 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 721,327,168 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 498,721,525 shares in the Company. These shares were held in the following capacity:*
- (i) *426,925,755 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects.*
- (ii) *71,795,770 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. William E. Mocatta is the founder of a discretionary trust which is the ultimate owner of the 1,017,000 shares.*
- (d) *Mr. John A.H. Leigh, in his capacity as one of the trustees of a charitable trust which is one of the ultimate owners of unit trusts which indirectly hold 371,567,442 shares, was deemed to be interested in the 371,567,442 shares.*

Messrs. 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 as at 31 December 2007.

Certain Directors held qualifying shares in MPHI, a 76.09% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 31 December 2007 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 to be notified to the Company and the Stock Exchange.

At no time during the year was the Company, or its subsidiaries or its associated companies, 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 2007, the interests of the senior management (other than Directors) in the shares and underlying shares of the Company were as follows:

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Mr. Martyn P.A. Sawyer	Beneficial Owner	26,012	0.0018

### Interests of substantial shareholders

So far as is known to any Director or Chief Executive of the Company, as at 31 December 2007, 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 of the Company*

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Bermuda Trust Company Limited	Trustee	793,122,938	55.008 (i)
The Mikado Private Trust Company Limited	Trustee	721,327,168	50.028 (ii)
Bermuda Trust (Cayman) Limited	Trustee	441,886,247	30.647 (v)
Acorn Holdings Corporation	Beneficiary	426,925,755	29.610 (i)
Lawrencium Holdings Limited	Beneficiary	426,925,755	29.610 (i)
Harneys Trustees Limited	Interest of controlled corporation	425,585,643	29.517 (v)
Goshawk Investments Limited (now known as Merlin Investments No. 2 Limited)	Beneficiary	370,401,101	25.690 (i)
Guardian Limited	Beneficiary	371,567,442	25.770 (i)
Lakshmi Company Limited	Beneficiary	370,401,101	25.690 (v)
Merlin Investments Limited	Beneficiary	370,401,101	25.690 (v)
Mr. Jason Holroyd Whittle	Beneficiary	370,401,101	25.690 (i)
Mrs. Deborah Whittle	Beneficiary	370,401,101	25.690 (i)
Mr. Richard Parsons	Trustee	371,567,442	25.770 (i)
New Boron Holding Corporation	Trustee	370,401,101	25.690 (iii)
New Xenon Holding Corporation	Trustee	370,401,101	25.690 (iii)
Lawrencium Mikado Holdings Limited	Beneficiary	294,401,413	20.419 (ii)
The Magna Foundation	Beneficiary	293,127,687	20.330 (i)
Mikado Holding Inc. (now known as New Mikado Holding Inc.)	Trustee	294,401,413	20.419 (iv)
Mikado Investments Limited	Interest of controlled corporation/ Beneficiary of trusts	294,401,413	20.419 (iv)

These interests are duplicated to the extent of 6,954,925,085 shares. The net total of 793,122,938 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 793,122,938 shares in which Bermuda Trust Company Limited was deemed to be interested as a trustee include (1) the shares in which Acorn Holdings Corporation, Lawrencium Holdings Limited, Goshawk Investments Limited (now known as Merlin Investments No. 2 Limited), Guardian Limited, Mr. Jason Holroyd Whittle, Mrs. Deborah Whittle and Mr. Richard Parsons were deemed to be interested; (2) the shares in which Mikado Investments Limited, The Magna Foundation and Lawrencium Mikado Holdings Limited were deemed to be interested; and (3) the shares in which The Mikado Private Trust Company Limited was deemed to be interested.*
- (ii) *The Mikado Private Trust Company Limited controlled Lawrencium Holdings Limited and Lawrencium Mikado Holdings Limited and was therefore deemed to be interested in the shares in which such companies were deemed to be interested.*
- (iii) *The 426,925,755 shares in which Acorn Holdings Corporation and Lawrencium Holdings Limited were deemed to be interested as beneficiaries includes the 370,401,101 shares in which New Boron Holding Corporation and New Xenon Holding Corporation were deemed to be interested as trustee.*
- (iv) *The shares in which Mikado Investments Limited was deemed to be interested as a beneficiary comprises the shares in which Mikado Holding Inc. (now known as New Mikado Holding Inc.) as trustee and The Magna Foundation as beneficiary were deemed to be interested.*
- (v) *Harneys Trustees Limited was deemed to be interested in the 370,401,101 shares in which New Boron Holding Corporation and New Xenon Holding Corporation were interested by virtue of having direct control over New Xenon Holding Corporation. Harneys Trustees Limited was also deemed to be interested in another 55,184,542 shares through other controlled corporations. Lakshmi Company Limited and Merlin Investments Limited were deemed to be interested in the shares in which New Xenon Holding Corporation was interested. Bermuda Trust (Cayman) Limited controlled Lakshmi Company Limited and Merlin Investments Limited and was therefore deemed to be interested in the shares in which Lakshmi Company Limited and Merlin Investments Limited were interested.*

Except as set out above, as at 31 December 2007 the Company had not been notified of any substantial 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.

### Interests of any other persons

As at 31 December 2007, 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 2007 or at any time during the year.

### Employee retirement benefits

Details of the Group's employee retirement benefits are shown in note 29 to the Financial Statements.

### Corporate governance

The Corporate Governance Report is set out on pages 82 to 96.

### Public float

As at 19 March 2008, 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

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 auditors will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Christobelle Liao  
*Company Secretary*  
Hong Kong, 19 March 2008