

Directors' Report

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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, development and management of prestigious hotel, commercial and residential properties in Asia, the United States of America and Europe, as well as the provision of transport, club management and other services.

Particulars of the principal subsidiaries of the Company are set out on pages 167 and 168.

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 34 to 59.

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 143 to 146.

Financial Statements

The profit of the Group for the year ended 31 December 2012 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 148 to 213.

Share Capital

On 29 June 2012, pursuant to the scrip dividend scheme, the Company issued and allotted 11,752,003 shares at an issue price of HK\$9.74 per share to the shareholders who elected to receive shares of the Company in lieu of cash for the 2011 final dividend in respect of the year ended 31 December 2011. 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 25 to the Financial Statements.

Dividends

An interim dividend of 4 HK cents per share (2011: 4 HK cents per share) in respect of the year ending 31 December 2012 was paid during the year 2012. The Directors have recommended a final dividend of 10 HK cents per share (2011: 10 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 3 May 2013 at 12:00 noon, such dividend will be payable on 20 May 2013 to shareholders whose names appear on the register of members on 13 May 2013.

Fixed Assets

Movements in fixed assets during the year are set out in note 12 to the Financial Statements.

Capitalised Interest

The amount of interest capitalised by the Group in 2012 and 2011 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 26(a) to the Financial Statements respectively. Reserves available for distribution to shareholders are disclosed in note 26(c) to the Financial Statements.

Purchase, Sale or Redemption of Listed Securities

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

Borrowings

Particulars of all borrowings are set out in note 24 to the Financial Statements.

Charitable Donations

Cash donations made by the Group for charitable purposes during the year amounted to HK\$1,573,736 (2011: HK\$4,162,707).

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 which were undertaken in the normal course of business. All of these transactions were either exempted from any reporting requirements under the Listing Rules or waiver has been granted by the Stock Exchange as disclosed in the announcement of the Company dated 27 November 2012.

Material Related Party Transactions

Details of material related party transactions which were undertaken in the normal course of business are set out in note 32 to the Financial Statements.

Directors

Biographical details of the Directors in office at the date of this Report are shown on pages 100 and 101. All the Directors held office throughout the year with the exception of Mr. Robert C.S. Ng who resigned on 19 June 2012. Dr. Rosanna Y.M. Wong was appointed to the Board as an Independent Non-Executive Director on 1 February 2013.

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

Dr. Rosanna Y.M. Wong, having been appointed to the Board since the date of the previous Annual General Meeting, will retire at the forthcoming Annual General Meeting in accordance with the Articles of Association and being eligible, will offer herself for re-election.

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Senior Management

Biographical details of senior management at the date of this Report are shown on page 103. All members of senior management held office throughout the year.

Interests of Directors and the Chief Executive Officer

As at 31 December 2012, 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 corporation, 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 in Appendix 10 of the Listing Rules ("Model Code") to be notified to the Company and the Stock Exchange, were set out on the next page.

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)	789,051,161	52.527
Mr. Ian D. Boyce	Beneficial Owner	222,810	0.015
Mr. Clement K.M. Kwok	Beneficial Owner	668,448	0.044
Mr. Peter C. Borer	Beneficial Owner	334,924	0.022
Mr. Ronald J. McAulay	Note ^(b)	247,261,425	16.460
Mr. William E. Mocatta	Beneficial Owner	17,000	0.001
Mr. John A.H. Leigh	Note ^(c)	75,354,850	5.016
Dr. the Hon. Sir David K.P. Li	Beneficial Owner	1,000,000	0.067
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 789,051,161 shares in the Company. These shares were held in the following capacity:
- (i) 171,906,575 shares were ultimately held by discretionary trusts, of which The Hon. Sir Michael Kadoorie is one of the discretionary objects;
 - (ii) 313,648,997 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) 303,495,589 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 789,051,161 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 247,261,425 shares in the Company. These shares were held in the following capacity:
- (i) 171,906,575 shares were ultimately held by discretionary trusts, of which Mr. Ronald J. McAulay is one of the discretionary objects; and
 - (ii) 75,354,850 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 75,354,850 shares in the Company. These shares were ultimately held by a discretionary trust. Mr. John A.H. Leigh was deemed to be interested in such 75,354,850 shares in his capacity as one of the trustees of a trust which was deemed to be interested in such 75,354,850 shares.

Messrs. Neil J. Galloway, Nicholas T.J. Colfer, Robert W. Miller, Patrick B. Paul and Dr. William K.L. Fung, 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 2012.

Certain Directors held qualifying shares in Manila Peninsula Hotel, Inc., a 77.36% subsidiary of the Company, on trust for a subsidiary of the Company.

Except as set out above, as at 31 December 2012, none of the Directors and the Chief Executive Officer of the Company, or any of their spouses, or children under 18 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 2012, none of the senior management (other than Directors) had any interests in the shares and underlying shares of the Company.

Interests of Substantial Shareholders

So far as is known to any Director or the Chief Executive Officer of the Company, as at 31 December 2012, shareholders (other than Directors or the Chief Executive

Officer of the Company) who had interests or short positions 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	171,906,575	11.444 ⁽ⁱ⁾
Bermuda Trust Company Limited	Trustee/Interests of controlled corporations	565,910,422	37.672 ⁽ⁱ⁾
Guardian Limited	Beneficiary/Interest of controlled corporation	75,354,850	5.016 ^(v)
Harneys Trustees Limited	Interests of controlled corporations	617,114,586	41.081 ⁽ⁱⁱⁱ⁾
Lawrencium Holdings Limited	Beneficiary	303,465,589	20.201 ⁽ⁱⁱ⁾
Lawrencium Mikado Holdings Limited	Beneficiary	313,648,997	20.879 ⁽ⁱⁱ⁾
The Magna Foundation	Beneficiary	313,648,997	20.879 ⁽ⁱⁱ⁾
The Mikado Private Trust Company Limited	Trustee/Interests of controlled corporations	617,114,586	41.081 ⁽ⁱⁱ⁾
Mikado Investments (PTC) Limited	Interest of controlled corporation/Trustee	313,648,997	20.879 ⁽ⁱ⁾
New Mikado Holding Inc.	Trustee	313,648,997	20.879 ⁽ⁱ⁾
The Oak Private Trust Company Limited	Trustee/Interests of controlled corporations	80,354,850	5.349 ^(iv)
Oak (Unit Trust) Holdings Limited	Trustee	75,354,850	5.016 ⁽ⁱ⁾
Oak HSH Limited	Beneficiary	75,354,850	5.016 ^(iv)
Mr. Richard Parsons	Trustee	75,354,850	5.016 ^(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 The Oak Private Trust Company Limited 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 the 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 the Chief Executive Officer".
- (iii) Harneys Trustees Limited controlled The Mikado Private Trust Company Limited and was therefore deemed to be interested in the shares in which such company was deemed to be interested.
- (iv) The Oak Private Trust Company Limited was deemed to be interested in the shares in which Oak HSH Limited and another company 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 The Oak Private Trust Company Limited in the shares of the Company include the shares held by a discretionary trust of which Mr. Ronald J. McAulay is one of the discretionary objects as disclosed in "Interests of Directors and the 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 75,354,850 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 the Chief Executive Officer".

(b) Other substantial shareholders

	Capacity	Number of shares held in the Company	% of the issued share capital of the Company
Prudential plc	Interest of controlled corporation	156,527,317	10.420
Aberdeen Asset Management Plc and its associates	Investment manager	106,593,749	7.096

Except as set out above, as at 31 December 2012, the Company had not been notified of any substantial shareholder (other than Directors or the Chief Executive Officer of the Company) who had interests or short positions 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 Person

As at 31 December 2012, the Company had not been notified of any person 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 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, whether directly or indirectly, subsisted as at 31 December 2012 or at any time during the year.

Employee Retirement Benefits

Details of the Group's employee retirement benefits are shown in note 28 to the Financial Statements.

Corporate Governance Report

The Corporate Governance Report is set out on pages 104 to 124.

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.

Directors' Responsibilities for the Financial Statements

The Directors are responsible for preparing the Financial Statements for each financial period. These Financial Statements must present a true and fair view of the state of affairs of the Group and of the results and cash flows of the relevant period. The Directors are also responsible for ensuring that the Group operates an efficient financial reporting system and keeps proper accounting records which disclose at any time and with reasonable accuracy the financial position of the Group.

In preparing the Financial Statements for the year ended 31 December 2012, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the Financial Statements on a going concern basis.

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 to re-appoint KPMG as auditor and authorise the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Christobelle Liao

Company Secretary

Hong Kong, 13 March 2013