

# Report of the Directors

The Directors have pleasure in submitting to shareholders their report and the audited financial statements for the year ended 31 December 2018.

## Principal Activities

The principal activity of the Company is investment holding and the activities of its principal subsidiary and associated companies and joint ventures are shown on pages 283 to 286.

## Business Review

A fair review of the business of the Group as required under Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), comprising a discussion and analysis of the Group's performance during the year, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2018 (if any) as well as an indication of likely future development in the business of the Group are provided in the sections "Chairman's Statement", "Operations Review", "Analyses of Core Business Segments by Geographical Location", "Analyses by Core Business Segments", "Key Financial Information", "Key Business Indicators" and "Business Highlights" on pages 4 to 71 and "Risk Factors" on pages 78 to 84 of this annual report. Discussions on the Group's environmental policies and performance, and an account of the Group's key relationships with its stakeholders are provided in the "Environmental, Social and Governance Report" on pages 85 to 105 of this annual report. Details regarding the Group's compliance with the relevant laws and regulations which have a significant impact on the Group are also provided in the "Environmental, Social and Governance Report" on pages 85 to 105 and the "Corporate Governance Report" on pages 148 to 164 of this annual report. All such discussions form part of this report.

## Group Profit

The Consolidated Income Statement is set out on page 170 and shows the Group profit for the year ended 31 December 2018.

## Dividends

An interim dividend of HK\$0.87 per share was paid to shareholders on 13 September 2018.

The Directors recommended the declaration of a final dividend of HK\$2.30 per share to be payable on Friday, 31 May 2019 to all persons registered as holders of shares on the register of members of the Company on Wednesday, 22 May 2019, being the record date for determining the entitlement of shareholders to the proposed final dividend.

## Reserves

Movements in the reserves of the Company and the Group during the year are set out in note 44 to the financial statements on pages 281 to 282 and the Consolidated Statement of Changes in Equity on pages 174 to 175 respectively.

## Charitable Donations

Donations to charitable organisations by the Group during the year amounted to approximately HK\$42 million (2017 – approximately HK\$25 million).

## Fixed Assets

Particulars of the movements of fixed assets are set out in note 9 to the financial statements on pages 196 to 197.

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### Share Capital

Details of the shares movement during the year are set out in note 29 to the financial statements on page 226.

### Directors

As at the date of this report, the board of Directors of the Company (the "Board") comprises Mr Li Tzar Kuoi, Victor, Mr Fok Kin Ning, Canning, Mr Frank John Sixt, Mr Ip Tak Chuen, Edmond, Mr Kam Hing Lam, Mr Lai Kai Ming, Dominic, Ms Edith Shih, Mr Chow Kun Chee, Roland, Mrs Chow Woo Mo Fong, Susan, Mr Lee Yeh Kwong, Charles, Mr Leung Siu Hon, Mr George Colin Magnus, Mr Kwok Tun-li, Stanley, Mr Cheng Hoi Chuen, Vincent, The Hon Sir Michael David Kadoorie, Ms Lee Wai Mun, Rose, Mr William Elkin Mocatta (Alternate Director to The Hon Sir Michael David Kadoorie), Mr William Shurniak, Mr Wong Chung Hin and Dr Wong Yick-ming, Rosanna.

During the year ended 31 December 2018 and the period up to the date of this report, the following changes to the Board composition took place:

- (1) Mr Li Ka-shing retired as Chairman and Executive Director on 10 May 2018; and
- (2) Mr Li Tzar Kuoi, Victor was appointed as Chairman on 10 May 2018.

Mr Li Tzar Kuoi, Victor, Mr Frank John Sixt, Mrs Chow Woo Mo Fong, Susan, Mr George Colin Magnus, The Hon Sir Michael David Kadoorie, Ms Lee Wai Mun, Rose and Mr William Shurniak will retire by rotation under the provision of Article 111(A) of the Articles of Association of the Company at the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the annual general meeting.

The Company has received written confirmation from all Independent Non-executive Directors regarding their independence as required under Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers all the Independent Non-executive Directors to be independent.

The Directors' biographical details are set out in the "Information on Directors" section of this annual report.

### Directors' Service Contract

None of the Directors of the Company who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company not terminable by the Company within one year without payment of compensation (other than statutory compensation).

### Directors' Material Interests in Significant Transactions, Arrangements or Contracts

Save as otherwise disclosed in the transactions relating to "Economic Benefits Agreements" under the section "Connected Transactions" in this report, there were no transactions, arrangements or contracts that are significant in relation to the businesses of the Company and its subsidiaries to which the Company or any of its subsidiary was a party and in which a Director of the Company or his/her connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Connected Transactions

#### Economic Benefits Agreements

During the year ended 31 December 2018 and up to the date of this report, the Group conducted the following transaction which constituted connected transaction for the Company under Chapter 14A of the Listing Rules, in respect of which an announcement dated 31 August 2018 was issued.

On 31 August 2018, Henley Riches Limited ("CKH Sub", an indirect wholly owned subsidiary of the Company) and the Company (as guarantor of CKH Sub) entered into, among other things, an economic benefits agreement (the "Economic Benefits Agreement") with Team Ace Enterprises Limited ("CKA Sub", a wholly owned subsidiary of CK Asset Holdings Limited ("CKA")) pursuant to which CKH Sub will pay CKA Sub its economic benefits amounts (the "Economic Benefits Amounts") on an ongoing basis with effect from the date upon receipt by CKH Sub of the consideration of approximately US\$1,222.93 million (equivalent to approximately HK\$9,600 million) (the "Effective Date").

The Economic Benefits Amounts payable by CKH Sub to CKA Sub under the Economic Benefits Agreement refer to the sums (in US dollars) equal to 40% of the economic benefits, comprising amounts including dividends and other distributions declared by Cheung Kong (Infrastructure Investment) Limited ("CKII", an indirect wholly owned subsidiary of the Company) to Cheung Kong (Holdings) Limited ("Cheung Kong (Holdings)", a wholly owned subsidiary of the Company and a holding company of CKII) and other proceeds or payments received by Cheung Kong (Holdings) from CKII from and including the Effective Date.

CKII (through the intermediate companies) holds shareholding interests in the relevant businesses, which are infrastructure businesses comprising interests in (a) Park'N Fly, the largest off-airport car park provider in Canada, (b) Northumbrian Water, one of the 10 regulated water and sewerage companies in England and Wales, (c) Australian Gas Networks, one of Australia's largest distributors of natural gas, (d) Wales & West Gas Networks, a gas distribution network that serves Wales and the South West of England, (e) UK Rails, one of the three major rolling stock operating companies in the United Kingdom and (f) Dutch Enviro Energy, the largest energy-from-waste company in the Netherlands.

The Company had unconditionally and irrevocably guaranteed to CKA Sub the due and punctual performance by CKH Sub of its obligations under the Economic Benefits Agreement, including the payment obligation of CKH Sub in respect of the Economic Benefits Amounts.

The Economic Benefits Agreement enables the Group to maintain leverage post completion of various pending transactions, including the Company's acquisition of an additional stake in Wind Tre S.p.A., at a level consistent with its current financial profile, and allows the Company to further streamline its infrastructure portfolio investments primarily through its holdings in CK Infrastructure Holdings Limited ("CKI", a non-wholly owned subsidiary of the Company).

Given that CKA is deemed by The Stock Exchange of Hong Kong Limited (the "SEHK") as a connected person of the Company under the Listing Rules, the entering into of the Economic Benefits Agreement with CKA Sub constituted a connected transaction for the Company under the Listing Rules. Since Mr Victor T K Li has or may be regarded as having a material interest in the transactions contemplated in the Economic Benefits Agreement, he had voluntarily abstained from voting on the board resolutions of the Company for approving the Economic Benefits Agreements.

### **Proposed formation of Joint Venture for the proposed acquisition of APA**

During the year, a joint announcement was made by the Company, CKA, CKI and Power Assets Holdings Limited ("Power Assets") on 13 August 2018 in relation to the consortium formation agreement entered into between, among others, CKA, CKI and Power Assets on 12 August 2018 (the "Joint Venture Transaction") pursuant to which, subject to the fulfilment of certain conditions, CKA, CKI and Power Assets would, among other things, form the consortium (the "Consortium"), enter into a shareholders' agreement regarding CKM UK Holdings Limited ("JV Co") and indirectly fund CKM Australia Bidco Pty Ltd ("Bidco", a wholly owned subsidiary of JV Co) to implement the proposed acquisition by Bidco of all of the stapled securities in issue of APA (which comprised Australian Pipeline Trust and APT Investment Trust) by way of the trust schemes (the "APA Acquisition"). The maximum financial commitment of CKI in relation to the Joint Venture Transaction would be up to approximately AUD2,633 million (equivalent to approximately HK\$15,272 million).

Given that CKA is deemed by the SEHK as a connected person of the Company under the Listing Rules, the entering into of the Joint Venture Transaction by CKI, which is a subsidiary of the Company, with CKA constituted a connected transaction for the Company under the Listing Rules. As announced by the Company and the Consortium on 20 November 2018, the Consortium would not proceed with the Joint Venture Transaction and the APA Acquisition as the condition precedent of a written no objection notification under the FIRB Act would not be satisfied.

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### Continuing Connected Transactions

As announced by the Company on 15 December 2017 (the "Announcement"), the Company entered into an agreement (the "Master Leasing Agreement") with CKA on the same date setting out the framework terms governing the leasing and licensing of premises (including office space, car parks and building areas but excluding hotel premises) by members of the CKA group to members of the Group (the "Leasing Transactions") for the period from 1 January 2018 to 31 December 2020.

Pursuant to the Master Leasing Agreement, relevant members of the Group and of the CKA group would enter into separate lease, tenancy or licence agreements with respect to each of the Leasing Transactions. The terms of, and the consideration payable under, such agreements would be negotiated on a case-by-case and arm's length basis, on normal commercial terms which, from the Group's perspective, would be no less favourable than those which the relevant members of the Group could obtain from independent landlords, lessors or licensors of comparable premises. In particular, the rental or licence fee payable would be at market rates, and the Group would seek competitive quotes for management review with a view to ensuring that the rental or licence fees payable by the Group to the relevant members of the CKA group are reasonable, having regard to the size, location, facilities and conditions of the premises required. The management/service fees chargeable by the CKA group to relevant members of the Group would be the same as those chargeable by the CKA group to other tenants or licensees of the same building or property.

CKA is deemed by the SEHK as a connected person of the Company under the Listing Rules. Accordingly, the Leasing Transactions constituted continuing connected transactions of the Company under the Listing Rules.

As disclosed in the Announcement, the maximum aggregate annual amount payable by the Group in respect of the Leasing Transactions for each of the year ended 31 December 2018, and the two years ending 31 December 2019 and 2020 would not exceed HK\$770 million, HK\$891 million and HK\$937 million respectively.

The aggregate amount paid by the Group for the year ended 31 December 2018 was approximately HK\$679 million (being approximately 88% of the annual cap of HK\$770 million for 2018).

The internal audit of the Group has reviewed the Leasing Transactions for the year ended 31 December 2018 (the "2018 CCTs") and the internal control procedures in respect of the negotiation, review, approval, management, reporting and monitoring process of the separate leases, tenancy or licence agreements for the Leasing Transactions, and is of the view that the 2018 CCTs were conducted in accordance with the terms of the Master Leasing Agreement and in compliance with the internal control procedures.

All the Independent Non-executive Directors of the Company, having reviewed the 2018 CCTs and the findings provided by the Group's internal audit, confirmed that such transactions had been entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) according to the respective agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged its external auditor to report on the 2018 CCTs in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. Based on the work performed, the external auditor of the Company has confirmed in its letter to the Board that nothing has come to its attention which causes it to believe that:

- (i) the 2018 CCTs have not been approved by the Board;
- (ii) the 2018 CCTs were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (iii) the aggregate amount paid by the Group in respect of the 2018 CCTs has exceeded the annual cap for 2018 as disclosed in the Announcement.

A summary of all related parties transactions entered into by the Group during the year ended 31 December 2018 is contained in note 36 to the consolidated financial statements. All the related parties transactions described in this note do not fall under the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules, other than the Company's acquisition of Hutchison Whampoa Limited ("HWL") pursuant to a group reorganisation took place in 2015 resulting in the consolidation of traded debt securities issued by Husky Energy Inc. as described in note 36 which falls under the definition of "connected transaction" under the Listing Rules and was disclosed previously by HWL pursuant to the Listing Rules. The Company has complied with the disclosure requirements prescribed in Chapter 14A of the Listing Rules.

## Permitted Indemnity Provisions

The Articles of Association of the Company provides that subject to the provisions of the relevant statutes, every Director of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his favour, or in which he is acquitted, and against any loss in respect of his personal liability for the payment of any sum primarily due from the Company. Directors liability insurance is in place for the Directors of the Company and its subsidiaries in respect of potential costs and liabilities arising from claims that may be brought against the Directors. The relevant provisions in the Articles of Association of the Company and the Directors' liability insurance were in force during the financial year ended 31 December 2018 and as of the date of this report.

## Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

Directors' and chief executive's interests and short positions in shares, underlying shares and debentures are set out in the section "Information on Directors" on pages 117 to 122.

## Interests and Short Positions of Shareholders Discloseable under the Securities and Futures Ordinance

So far as the Directors and chief executive of the Company are aware, as at 31 December 2018, other than the interests of the Directors and chief executive of the Company as disclosed in the section titled "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" under "Information on Directors", the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO"), or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the SEHK:

### (I) Interests and short positions of substantial shareholders in the shares and underlying shares of the Company

#### Long positions in the shares of the Company

Names	Capacity	Number of Shares Held	Total	Approximate % of Shareholding
Li Ka-Shing Unity Trustee Company Limited ("TUT1") as trustee of The Li Ka-Shing Unity Trust ("UT1")	Trustee	1,003,380,744	1,003,380,744 <sup>(1)</sup>	26.01%
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1")	Trustee and beneficiary of a trust	1,003,380,744	1,003,380,744 <sup>(1)</sup>	26.01%
Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2")	Trustee and beneficiary of a trust	1,003,380,744	1,003,380,744 <sup>(1)</sup>	26.01%
Li Ka-shing	Interest of controlled corporations	707,800 )	)	)
	Founder of discretionary trusts	1,160,195,710 )	)	)
		)	1,160,903,510 <sup>(2)</sup>	30.10%

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### (II) Interests and short positions of other persons in the shares and underlying shares of the Company

#### (a) Long positions in the shares and underlying shares of the Company

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	Approximate % of Shareholding
JPMorgan Chase & Co.	Interest of controlled corporations	12,329,948 )		
		)		
	Investment manager	25,677,049 )		
		)		
	Person having a securities interest in shares	7,720,471 )		
		)		
	Trustee	54,001 )		
		)		
	Approved lending agent	151,140,091 )	196,921,560 <sup>(3)</sup>	5.10%

#### (b) Short positions in the shares and underlying shares of the Company

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	Approximate % of Shareholding
JPMorgan Chase & Co.	Interest of controlled corporations	14,321,237	14,321,237 <sup>(4)</sup>	0.37%

#### (c) Lending pool in the shares and underlying shares of the Company

Name	Capacity	Number of Shares/ Underlying Shares Held	Total	Approximate % of Shareholding
JPMorgan Chase & Co.	Approved lending agent	151,140,091	151,140,091	3.91%

Notes:

- (1) The three references to 1,003,380,744 shares of the Company relate to the same block of shares of the Company. Of these 1,003,380,744 shares of the Company, 913,378,704 shares of the Company are held by TUT1 as trustee of UT1 and 90,002,040 shares of the Company are held by companies controlled by TUT1 as trustee of UT1. Each of TUT1 as trustee of UT1, TDT1 as trustee of DT1 and TDT2 as trustee of another discretionary trust is taken to have a duty of disclosure under the SFO in relation to the same 1,003,380,744 shares of the Company as described in Note (1)(a) under the section titled "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above.
- (2) The 1,160,903,510 shares of the Company comprise:
- (a) 707,800 shares of the Company of which:
- (i) 407,800 shares held by certain companies of which Mr Li Ka-shing is entitled to exercise or control the exercise of one-third or more of the voting power at their general meetings.
- (ii) 300,000 shares held by Li Ka Shing Foundation Limited ("LKSF"). By virtue of the terms of the constituent documents of LKSF, Mr Li Ka-shing may be regarded as having the ability to exercise or control the exercise of one-third or more of the voting power at the general meetings of LKSF.
- (b) 1,160,195,710 shares of the Company as described in Note (1) under the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above. As Mr Li Ka-shing may be regarded as a founder of each of DT1, DT2, DT3 and DT4 for the purpose of the SFO, Mr Li Ka-shing is taken to have a duty of disclosure under the SFO as a substantial shareholder in relation to the same 1,160,195,710 shares of the Company after his retirement from the directorship of the Company.

- (3) Such long position includes derivative interests in 861,605 underlying shares of the Company of which 494,000 underlying shares are derived from listed and physically settled derivatives, 60,844 underlying shares are derived from unlisted and physically settled derivatives and 306,761 underlying shares are derived from unlisted and cash settled derivatives.
- (4) Such short position includes derivative interests in 10,046,237 underlying shares of the Company of which 403,500 underlying shares are derived from listed and physically settled derivatives, 631,000 underlying shares are derived from listed and cash settled derivatives, 5,546,737 underlying shares are derived from unlisted and physically settled derivatives and 3,465,000 underlying shares are derived from unlisted and cash settled derivatives.

Save as disclosed above, as at 31 December 2018, no other person (other than the Directors and chief executive of the Company) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the SEHK.

## Equity-Linked Agreements

No equity-linked agreements that will or may result in the Company issuing shares nor require the Company to enter into an agreement that will or may result in the Company issuing shares was entered into by the Company during the year or subsisted at the end of the year.

## Share Option Schemes

The Company has no share option scheme, but certain of the Company's subsidiary companies have adopted share option schemes. The principal terms of such share option schemes are summarised as follows:

### (I) Hutchison China MediTech Limited ("Chi-Med")

#### 2006 Share Option Scheme (the "2006 Plan")

On 18 May 2006, Chi-Med adopted the 2006 Plan for the grant of options to acquire ordinary shares in the share capital of Chi-Med (the "Chi-Med Shares"). The 2006 Plan was valid and effective during the period from 18 May 2006 to 17 May 2016, being the date falling 10 years from the date on which the 2006 Plan was adopted. After 17 May 2016, no further share options could be granted under the 2006 Plan but the provisions of the 2006 Plan remained in full force and effect to the extent necessary to give effect to the exercise of any share options granted prior to the end of the validity period or otherwise to the extent as may be required in accordance with the provisions of the 2006 Plan. A summary of the 2006 Plan is as follows:

- (1) The purpose of the 2006 Plan is to provide Chi-Med with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to 2006 Chi-Med Eligible Persons (as defined below).
- (2) Share options may be granted to a "2006 Chi-Med Eligible Person", being any person who is (or will be on and following the date of offer of the relevant option) a director (other than an independent non-executive director) or an employee of Chi-Med, its listed parent company (which is currently the Company) and any of its subsidiaries, and any holding company, subsidiaries or affiliates of Chi-Med or other companies which the board of directors of Chi-Med (the "Chi-Med Board") determines will be subject to the 2006 Plan, who is notified by the Chi-Med Board that he or she is an eligible person. Actual participation is at the discretion of the Chi-Med Board.
- (3) Share option holders are not required to pay for the grant of any share option.
- (4) Unless otherwise determined by the Chi-Med Board and stated in the offer of the grant of share options to a 2006 Chi-Med Eligible Person, there is no minimum period required under the 2006 Plan for the holding of a share option before it can be exercised.
- (5) Subject to any adjustment according to the rules of the 2006 Plan, the subscription price shall be:
  - (a) in the case of the one-time initial grants of share options by Chi-Med under the 2006 Plan to founders and non-founders prior to the Chi-Med Listing (as defined below), the price determined by the Chi-Med Board and notified to the relevant share option holder; and

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(b) in respect of any other share option, the 2006 Market Value (as defined below) of the Chi-Med Shares as at the offer date,

where "2006 Market Value" on any particular day on or after the Chi-Med Listing means the higher of: (a) the average of the closing prices of the Chi-Med Shares on the five dealing days immediately preceding the offer date; (b) the closing price of the Chi-Med Shares as stated on a recognised stock exchange's daily quotations sheet of such shares on the offer date; and (c) the nominal value of the Chi-Med Shares.

- (6) The maximum number of Chi-Med Shares which may be allotted and issued pursuant to the 2006 Plan is subject to the following:
- (a) the total number of Chi-Med Shares which may be issued upon the exercise of all share options to be granted under all share option schemes of Chi-Med must not in aggregate exceed 5% of the Chi-Med Shares in issue on the date on which the Chi-Med Shares are listed for trading on a recognised stock exchange (including the AIM) (the "Chi-Med Listing");
  - (b) the Chi-Med Board may refresh and recalculate the limit in paragraph (6)(a) above by reference to the issued share capital of Chi-Med then prevailing with the approval of the shareholders of its listed parent company (which is currently the Company), if required, under the Listing Rules in a general meeting, provided that the total number of Chi-Med Shares issued and issuable pursuant to the exercise of share options under all share option schemes of Chi-Med may not exceed 10% of the issued ordinary share capital on the date of the approval of the refreshed limit. Share options previously granted under the 2006 Plan and any other employee share schemes of Chi-Med (including those outstanding, cancelled, lapsed or exercised) will not be counted for the purpose of calculating the limit as refreshed. As at the date of this report, the total number of Chi-Med Shares available for issue under the 2006 Plan (including the share options granted but yet to be exercised) is 184,518, representing approximately 0.28% of the total number of Chi-Med Shares in issue;
  - (c) share options may be granted to any 2006 Chi-Med Eligible Person(s) specifically identified by the Chi-Med Board in excess of the limit, including the refreshed limit, under paragraphs (6)(a) and (6)(b) above, with the approval of the shareholders of Chi-Med in a general meeting and by the shareholders of the listed parent company, if required under the Listing Rules, and subject to paragraphs (6)(d) and (6)(e) below and restrictions on grant to key individuals under the 2006 Plan;
  - (d)
    - (i) no 2006 Chi-Med Eligible Person may be granted a share option if, as a result, the total number of Chi-Med Shares over which that 2006 Chi-Med Eligible Person holds share options granted in the previous 12 months, when added to the number of Chi-Med Shares, the subject of the proposed grant, would exceed 1% of the issued ordinary share capital of Chi-Med on that date; and
    - (ii) notwithstanding paragraph (6)(d)(i) above, share options may be granted to any 2006 Chi-Med Eligible Person(s) which would cause the limit under paragraph (6)(d)(i) above to be exceeded, but only with the approval of the shareholders of the listed parent in a general meeting (with such 2006 Chi-Med Eligible Person and his/her associates abstaining from voting) and subject to paragraph (6)(e) below; and
  - (e) the total number of shares which may be issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2006 Plan and under any other share option scheme of Chi-Med must not exceed 10% of the Chi-Med Shares in issue from time to time.

Subject to and in accordance with the rules of the 2006 Plan, a share option may be exercised during a period which is notified at the offer date of the share option, such period will not exceed the period of 10 years from such offer date.



Particulars of share options outstanding under the 2006 Plan at the beginning and at the end of the financial year ended 31 December 2018 and share options granted, exercised, cancelled or lapsed under the 2006 Plan during the year were as follows:

### 2006 Plan

Category of participants	Date of grant of share options	Number of share options held as at 1 January 2018	Granted during 2018	Exercised during 2018	Lapsed/ cancelled/ during 2018	Number of share options held as at 31 December 2018	Exercise period of share options	Exercise price of share options £	Price of Chi-Med Share prior to the grant date of share options £	Price of Chi-Med Share prior to the exercise date of share options £
Employees in aggregate	24.6.2011 <sup>(1)</sup>	75,000	–	–	–	75,000	24.6.2011 to 23.6.2021	4.405	4.400 <sup>(2)</sup>	N/A
	20.12.2013 <sup>(1)</sup>	207,726	–	(98,208)	–	109,518	20.12.2013 to 19.12.2023	6.100	6.100 <sup>(2)</sup>	47.167 <sup>(3)</sup>
Total:		282,726	–	(98,208)	–	184,518				

Notes:

- (1) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of 25% on each of the first, second, third and fourth anniversaries of the date of grant of share options.
- (2) The stated price was the closing price of the Chi-Med Shares quoted on AIM on the trading day immediately prior to the date of grant of share options.
- (3) The stated price was the weighted average closing price of the Chi-Med Shares quoted on AIM on the trading day immediately prior to the date on which the share options were exercised.

### **2016 Share Option Scheme (the "2016 Plan")**

On 24 April 2015, Chi-Med conditionally adopted the 2016 Plan for the grant of options to acquire the Chi-Med Shares. The 2016 Plan is valid and effective during the period commencing on 13 May 2016 and ending on 12 May 2026, being the date falling 10 years from the date on which the 2016 Plan became unconditional. The 2016 Plan has a remaining term of approximately seven years as at the date of this report. A summary of the 2016 Plan is as follows:

- (1) The purpose of the 2016 Plan is to provide Chi-Med with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to 2016 Chi-Med Eligible Persons (as defined below).
- (2) Share options may be granted to a "2016 Chi-Med Eligible Person", being any person who is (or will be on and following the date of offer of the relevant option) a non-executive director (excluding any independent non-executive directors) or an employee or a director holding salaried office or employment under a contract with Chi-Med, its listed parent company (which is currently the Company) and any of its subsidiaries or affiliates, and any holding company, subsidiaries or affiliates of Chi-Med or other companies which the Chi-Med Board determines will be subject to the 2016 Plan, who is notified by the Chi-Med Board that he or she is an eligible person.
- (3) Share option holders are not required to pay for the grant of any share option.
- (4) Unless otherwise determined by the Chi-Med Board and stated in the offer of the grant of share options to a 2016 Chi-Med Eligible Person, there is no minimum period required under the 2016 Plan for the holding of a share option before it can be exercised.
- (5) Subject to any adjustment according to the rules of the 2016 Plan, the exercise price shall be, in respect of any share option, the 2016 Market Value (as defined below) of the Chi-Med Shares as at the offer date,

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where "2016 Market Value" on any particular day means:

- (i) where the Chi-Med Shares of the same class are admitted to trading on any stock exchange, the higher of:
    - (a) the average of the closing prices of the Chi-Med Shares on the five dealing days immediately preceding the offer date;
    - (b) the closing price of the Chi-Med Shares as stated on a recognised stock exchange's daily quotations sheet of such shares on the offer date; and
    - (c) the nominal value of the Chi-Med Shares; or
  - (ii) where the Chi-Med Shares of the same class are not admitted to trading on any recognised stock exchange, the value of a Chi-Med Share is determined in such manner as the Chi-Med Board considers reasonable according to objective criteria.
- (6) The maximum number of Chi-Med Shares which may be allotted and issued pursuant to the 2016 Plan is subject to the following:
- (a) the total number of Chi-Med Shares which may be issued upon the exercise of all options to be granted under the 2016 Plan must not in aggregate exceed 4% of the Chi-Med Shares in issue as at 13 May 2016, being the date on which the 2016 Plan was approved by the shareholders of the Company in a general meeting (the "Scheme Limit"). Share options lapsed in accordance with the terms of the 2016 Plan will not be counted for the purpose of calculating the Scheme Limit;
  - (b) the Chi-Med Board may refresh the Scheme Limit by reference to the issued share capital of Chi-Med then prevailing with the approval of the shareholders of its listed parent company (which is currently the Company), if required, under the Listing Rules in a general meeting, provided that the total number of Chi-Med Shares which may be issued upon the exercise of share options to be granted under the 2016 Plan and any options under any other share option schemes of Chi-Med under the limit as refreshed shall not exceed 10% of the Chi-Med Shares in issue at the date on which shareholders of the listed parent company approve the refreshed limit (where applicable). Share options previously granted under the 2016 Plan and any other share option schemes of Chi-Med (including those outstanding, cancelled, lapsed in accordance with the terms of the relevant scheme, or exercised options) will not be counted for the purpose of calculating the limit as refreshed. As at the date of this report, the total number of Chi-Med Shares available for issue under the 2016 Plan (including the share options granted but yet to be exercised) is 2,313,097, representing approximately 3.47% of the total number of Chi-Med Shares in issue;
  - (c) share options may be granted to any 2016 Chi-Med Eligible Person(s) specifically identified by the Chi-Med Board which would cause the Scheme Limit (including, for the avoidance of doubt, any such limit as refreshed under paragraph (6)(b) above) to be exceeded, but only with the approval of the shareholders of Chi-Med in a general meeting (and by the shareholders of the listed parent company, if required under the Listing Rules), and subject always to paragraphs (6)(d) and (6)(e) below and restrictions on grant to key individuals under the 2016 Plan;
  - (d)
    - (i) the Chi-Med Board shall not grant any share options (the "Relevant Chi-Med Options") to any 2016 Chi-Med Eligible Person which, if exercised, would result in such person becoming entitled to subscribe for such number of Chi-Med Shares as, when aggregated with the total number of Chi-Med Shares already issued or to be issued to him/her under all share options (including both exercised and outstanding share options) granted to him/her in the 12-month period up to, and including, the offer date of the Relevant Chi-Med Options, exceeds 1% of the Chi-Med Shares in issue at such date; and
    - (ii) notwithstanding paragraph (6)(d)(i) above, the Chi-Med Board may grant share options to any 2016 Chi-Med Eligible Person(s) which would cause the limit under paragraph (6)(d)(i) above in relation to such 2016 Chi-Med Eligible Person to be exceeded, but only with the approval of the shareholders of the listed parent in a general meeting (with such 2016 Chi-Med Eligible Person and his/her associates abstaining from voting) and subject to paragraph (6)(e) below; and
  - (e) the total number of Chi-Med Shares which may be issued upon exercise of all outstanding share options granted and not yet exercised under the 2016 Plan, and under any other share option scheme of Chi-Med must not exceed 10% of the Chi-Med Shares in issue from time to time.

Subject to and in accordance with the rules of the 2016 Plan, a share option may be exercised during a period which is notified at the offer date of the share option, such period will not exceed the period of 10 years from such offer date.

Particulars of share options outstanding under the 2016 Plan at the beginning and at the end of the financial year ended 31 December 2018 and share options granted, exercised, cancelled or lapsed under the 2016 Plan during the year were as follows:

### 2016 Plan

Name or category of participants	Date of grant of share options	Number of share options held as at 1 January 2018	Granted during 2018	Exercised during 2018	Lapsed/cancelled during 2018	Number of share options held as at 31 December 2018	Exercise period of share options	Exercise price of share options £	Price of Chi-Med Share prior to the grant date of share options £	Price of Chi-Med Share prior to the exercise date of share options £
<b>Director</b>										
Weiguo Su	15.6.2016 <sup>(1)</sup>	300,000	–	–	–	300,000	15.6.2016 to 19.12.2023	19.700	19.750 <sup>(4)</sup>	N/A
	27.3.2017 <sup>(2)</sup>	100,000	–	–	–	100,000	27.3.2017 to 26.3.2027	31.050	31.050 <sup>(4)</sup>	N/A
	19.3.2018 <sup>(2)</sup>	–	100,000	–	–	100,000	19.3.2018 to 18.3.2028	49.740	48.900 <sup>(4)</sup>	N/A
<b>Employees in aggregate</b>										
	15.6.2016 <sup>(1)</sup>	293,686	–	–	–	293,686	15.6.2016 to 19.12.2023	19.700	19.750 <sup>(4)</sup>	N/A
	15.6.2016 <sup>(3)</sup>	100,000	–	(100,000)	–	–	15.6.2016 to 27.6.2024	19.700	19.750 <sup>(4)</sup>	45.978 <sup>(5)</sup>
	27.3.2017 <sup>(2)</sup>	50,000	–	(12,500)	(37,500)	–	27.3.2017 to 26.3.2027	31.050	31.050 <sup>(4)</sup>	51.500 <sup>(5)</sup>
	19.3.2018 <sup>(2)</sup>	–	50,000	–	(50,000)	–	19.3.2018 to 18.3.2028	49.740	48.900 <sup>(4)</sup>	N/A
	20.4.2018 <sup>(2)</sup>	–	762,690	–	(33,345)	729,345	20.4.2018 to 19.4.2028	46.450	45.900 <sup>(4)</sup>	N/A
	6.6.2018 <sup>(2)</sup>	–	36,936	–	–	36,936	6.6.2018 to 5.6.2028	41.660	41.100 <sup>(4)</sup>	N/A
	6.8.2018 <sup>(2)</sup>	–	68,000	–	–	68,000	6.8.2018 to 5.8.2028	48.600	50.000 <sup>(4)</sup>	N/A
	19.10.2018 <sup>(2)</sup>	–	43,000	–	–	43,000	19.10.2018 to 18.10.2028	46.100	46.000 <sup>(4)</sup>	N/A
Total:		843,686	1,060,626	(112,500)	(120,845)	1,670,967				

#### Notes:

- (1) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of approximately 50% on the day after the acceptance of the offer, approximately 25% on 20 December 2016 and approximately 25% on 20 December 2017.
- (2) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of 25% on each of the first, second, third and fourth anniversaries of the date of grant of share options.
- (3) The share options granted are exercisable subject to, amongst other relevant vesting criteria, the vesting schedule of approximately 50% on the day after the acceptance of the offer, approximately 25% on 28 June 2017 and approximately 25% on 28 June 2018.
- (4) The stated price was the closing price of the Chi-Med Shares quoted on AIM on the trading day immediately prior to the date of grant of share options.
- (5) The stated price was the weighted average closing price of the Chi-Med Shares quoted on AIM on the trading day immediately prior to the date on which the share options were exercised.

## Report of the Directors

As at the date of this report, Chi-Med has 184,518 share options and 1,670,967 share options outstanding under the 2006 Plan and 2016 Plan respectively, representing approximately 0.28% and 2.51% respectively of the Chi-Med Shares in issue.

The fair values of share options granted during the year, determined using the Polynomial Model were as follows:

Grant date	19.3.2018	20.4.2018	6.6.2018	6.8.2018	19.10.2018
Value of each share option	£17.06	£16.73	£14.83	£16.93	£16.57
Significant inputs into the valuation model:					
Exercise price	£49.74	£46.45	£41.66	£48.60	£46.10
Share price at effective grant date	£48.45	£46.45	£41.40	£48.00	£46.10
Expected volatility	37.49%	37.72%	37.82%	37.22%	37.41%
Risk-free interest rate	1.44%	1.48%	1.37%	1.30%	1.58%
Contractual life of share options	10 years	10 years	10 years	10 years	10 years
Expected dividend yield	0%	0%	0%	0%	0%

The volatility of the underlying stock during the life of the share options was estimated with reference to the historical volatility prior to the issuances of share options. Changes in such subjective input assumptions could affect the fair value estimate.

### (II) Hutchison Telecommunications Hong Kong Holdings Limited (“HTHKH”)

On 6 April 2009, HTHKH conditionally adopted a share option scheme (the “HTHKH Plan”) for the grant of options to acquire ordinary shares in the share capital of HTHKH (the “HTHKH Shares”). The HTHKH Plan is valid and effective during the period commencing on 21 May 2009 and ending on 20 May 2019, being the date falling 10 years from the date on which the HTHKH Plan became unconditional. The HTHKH Plan has a remaining term of approximately two months as at the date of this report. A summary of the HTHKH Plan is as follows:

- (1) The purpose of the HTHKH Plan is to enable HTHKH and its subsidiaries (the “HTHKH Group”) to grant share options to selected participants as incentives or rewards for their contribution to the HTHKH Group, to continue and/or render improved service with the HTHKH Group and/or to establish a stronger business relationship between the HTHKH Group and such participants.
- (2) The directors of HTHKH (the “HTHKH Directors”) (which expression shall include a duly authorised committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants to take up share options to subscribe for HTHKH Shares:
  - (a) any employee or consultant (as to functional areas of finance, business or personnel administration or information technology) (whether full time or part time, including any executive director but excluding any non-executive director) of HTHKH, any of its subsidiaries or any entity in which any member of the HTHKH Group holds any equity interest (the “HTHKH Invested Entity”);
  - (b) any non-executive directors (including independent non-executive directors) of HTHKH, any of its subsidiaries or any HTHKH Invested Entity;
  - (c) any supplier of goods or services to any member of the HTHKH Group or any HTHKH Invested Entity;
  - (d) any customer of any member of the HTHKH Group or any HTHKH Invested Entity;
  - (e) any person or entity that provides research, development or other technological support to any member of the HTHKH Group or any HTHKH Invested Entity;
  - (f) any shareholders of any member of the HTHKH Group or any HTHKH Invested Entity or any holder of any securities issued by any member of the HTHKH Group or any HTHKH Invested Entity;

- (g) any other group or classes of participants contributing by way of joint venture, business alliance or other business arrangement to the development and growth of the HTHKH Group; and
- (h) any company wholly owned by any one or more persons belonging to any of the above classes of participants.

For the avoidance of doubt, the grant of any share options by HTHKH for the subscription of HTHKH Shares or other securities of the HTHKH Group to any person who falls within any of the above classes of participants shall not, by itself, unless the HTHKH Directors otherwise determine, be construed as a grant of share options under the HTHKH Plan.

The eligibility of any of the above classes of participants to an offer for the grant of any share options shall be determined by the HTHKH Directors from time to time on the basis of their contribution to the development and growth of the HTHKH Group.

- (3) A nominal consideration of HK\$1 is payable on acceptance of the offer of the grant of a share option.
- (4) Unless otherwise determined by the HTHKH Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the HTHKH Plan for the holding of a share option before it can be exercised.
- (5) The subscription price for the HTHKH Shares under the HTHKH Plan shall be a price determined by the HTHKH Directors but shall not be less than the highest of (a) the closing price of HTHKH Shares as stated in the daily quotations sheet of the SEHK for trade in one or more board lots of the HTHKH Shares on the date of the offer of grant of the share options which must be a business day; (b) the average closing price of the HTHKH Shares as stated in the SEHK's daily quotations sheet for trade in one or more board lots of the HTHKH Shares for the five business days immediately preceding the date of the offer of grant of the share options which must be a business day; and (c) the nominal value of HTHKH Shares.
- (6) The maximum number of HTHKH Shares which may be allotted and issued pursuant to the HTHKH Plan is as follows:
  - (a) the maximum number of HTHKH Shares which may be allotted and issued upon the exercise of all outstanding share options granted and yet to be exercised under the HTHKH Plan and any other share option scheme adopted by the HTHKH Group ("Other HTHKH Plan") must not in aggregate exceed 30% of the relevant class of securities of HTHKH (or its subsidiaries) in issue from time to time;
  - (b) the total number of HTHKH Shares which may be allotted and issued upon the exercise of all share options (excluding, for this purpose, share options which have lapsed in accordance with the terms of the HTHKH Plan and Other HTHKH Plan) to be granted under the HTHKH Plan and Other HTHKH Plan must not in aggregate exceed 10% of the relevant class of securities of HTHKH (or its subsidiaries) in issue, being 4,814,346,208 HTHKH Shares, as at 8 May 2009, the date on which the HTHKH Shares were first listed on the SEHK (the "HTHKH Listing Date") (the "HTHKH General Scheme Limit"). Based on the number of HTHKH Shares in issue on the HTHKH Listing Date, the HTHKH General Scheme Limit of the HTHKH Plan is 481,434,620 HTHKH Shares. As at the date of this report, the total number of HTHKH Shares available for issue under the HTHKH Plan (including the share options granted but yet to be exercised) is 476,884,620, representing approximately 9.90% of the total number of HTHKH Shares in issue;
  - (c) subject to paragraph (6)(a) above and without prejudice to paragraph (6)(d) below, HTHKH may seek approval of its shareholders (the "HTHKH Shareholders") in a general meeting to refresh the HTHKH General Scheme Limit (a circular containing the information required by the Listing Rules to be despatched to the HTHKH Shareholders for that purpose) provided that the total number of HTHKH Shares which may be allotted and issued upon the exercise of all share options to be granted under the HTHKH Plan and Other HTHKH Plan must not exceed 10% of the relevant class of securities of HTHKH (or its subsidiaries) in issue as at the date of approval of the limit and, for the purpose of calculating the limit, share options including those outstanding, cancelled, lapsed or exercised in accordance with the HTHKH Plan and Other HTHKH Plan previously granted under the HTHKH Plan and Other HTHKH Plan will not be counted;

## Report of the Directors

- (d) subject to paragraph (6)(a) above and without prejudice to paragraph (6)(c) above, HTHKH may seek separate approval of the HTHKH Shareholders in a general meeting to grant share options under the HTHKH Plan beyond the HTHKH General Scheme Limit (a circular containing the information required by the Listing Rule to be despatched to the HTHKH Shareholders for that purpose) or, if applicable, the extended limit referred to in paragraph (6)(c) above to participants specifically identified by HTHKH before such approval is sought; and
- (e) the total number of HTHKH Shares issued and to be issued upon the exercise of the share options granted to each participant under the HTHKH Plan and Other HTHKH Plan (including both exercised and outstanding share options) in any 12-month period must not exceed 1% of the issued share capital of HTHKH, unless approved by the HTHKH Shareholders in a general meeting (with such participant and his/her associates (as defined in the Listing Rules) abstaining from voting) in compliance with the requirements of the Listing Rules.

A share option may be accepted by a participant within 21 days from the date of the offer of grant of the share option.

A share option may be exercised in accordance with the terms of the HTHKH Plan at any time during a period to be determined on the date of offer of grant of the share option and notified by the HTHKH Directors to each grantee, which period may commence, once the offer for the grant is accepted within the prescribed time by the grantee, from the date on which such share option is deemed to have been granted but shall end in any event not later than 10 years from the date on which the offer for grant of the share option is made, subject to the provisions for early termination thereof.

Particulars of share options outstanding under the HTHKH Plan at the beginning and at the end of the financial year ended 31 December 2018 and share options granted, exercised, cancelled or lapsed under the HTHKH Plan during the year were as follows:

Category of participants	Date of grant of share options <sup>(1)</sup>	Number of share options held as at 1 January 2018	Granted during 2018	Exercised during 2018	Lapsed/ cancelled during 2018	Number of share options held as at 31 December 2018	Exercise period of share options	Exercise price of share options <sup>(2)</sup> HK\$	Price of HTHKH Share prior to the grant date of share options <sup>(3)</sup> HK\$	Price of HTHKH Share prior to the exercise date of share options HK\$
Employees in aggregate	1.6.2009	200,000	–	–	–	200,000	1.6.2009 to 31.5.2019	1.00	0.96	N/A

Notes:

- (1) The share options were vested in three tranches, approximately one-third each on 1 June 2009, 23 November 2009 and 23 November 2010, respectively, so long as the grantee remained an Eligible Participant (as defined in the HTHKH Plan) on each vesting date.
- (2) The exercise price of the share options is subject to adjustment in accordance with the provisions of the HTHKH Plan.
- (3) The stated price was the closing price of the HTHKH Shares on the SEHK on the trading day immediately prior to the date of grant of the share options.

As at the date of this report, HTHKH has 200,000 share options outstanding under the HTHKH Plan, which represent approximately 0.004% of the HTHKH Shares in issue.

No share option was granted under the HTHKH Plan during the year ended 31 December 2018.

### (III) Hydros핀 Monitoring Solutions Ltd ("Hydros핀")

On 14 November 2018, Hydros핀 ceased to be a subsidiary of the Company. Accordingly, the disclosure made for the share option scheme of Hydros핀 (the "Hydros핀 Plan") as set out below is for the period from 1 January 2018 to 14 November 2018.

On 11 June 2015, Hydros핀, an incubator Company in Israel, adopted the Hydros핀 Plan for the grant of options to acquire ordinary shares in the share capital of Hydros핀 (the "Hydros핀 Shares"). The Hydros핀 Plan is valid and effective during the period commencing on 11 June 2015 and ending on 10 June 2025, being the date falling 10 years from the date on which the Hydros핀 Plan was adopted. The Hydros핀 Plan has a remaining term of approximately six years as at the date of this report. A summary of the Hydros핀 Plan is as follows:

- (1) The purpose of the Hydros핀 Plan is to enable Hydros핀 to grant share options to selected participants as incentives or rewards for their contribution to Hydros핀 and its subsidiaries (the "Hydros핀 Group"), to continue and/or render improved service with the Hydros핀 Group, and/or to establish a stronger business relationship between the Hydros핀 Group and such participants.
- (2) The directors of Hydros핀 (the "Hydros핀 Directors") (which expression shall include a duly authorised committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants to take up share options to subscribe for the Hydros핀 Shares:
  - (a) any employee or consultant (as to functional areas of finance, business or personnel administration or information technology) (whether full time or part time, including any executive director but excluding any non-executive director) of Hydros핀, any of its subsidiaries or any entity in which any member of the Hydros핀 Group holds an equity interest (the "Hydros핀 Invested Entity");
  - (b) any non-executive directors (including independent non-executive directors) of Hydros핀, any of its subsidiaries or any Hydros핀 Invested Entity;
  - (c) any supplier of goods or services to any member of the Hydros핀 Group or any Hydros핀 Invested Entity;
  - (d) any customer of any member of the Hydros핀 Group or any Hydros핀 Invested Entity;
  - (e) any person or entity that provides research, development or other technological support to any member of the Hydros핀 Group or any Hydros핀 Invested Entity;
  - (f) any shareholder of any member of the Hydros핀 Group or any Hydros핀 Invested Entity or any holder of any securities issued by any member of the Hydros핀 Group or any Hydros핀 Invested Entity;
  - (g) any other group or classes of participants contributing by way of joint venture, business alliance or other business arrangement to the development and growth of the Hydros핀 Group; and
  - (h) any company wholly owned by any one or more persons belonging to any one or more of the above classes of participants.

The eligibility of any of the above classes of participants to a grant of share options shall be determined by the Hydros핀 Directors from time to time on the basis of their contribution to the development and growth of the Hydros핀 Group.

- (3) Share option holders are not required to pay for the acceptance of a grant of share options.
- (4) Unless otherwise determined by the Hydros핀 Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the Hydros핀 Plan for the holding of a share option before it can be exercised.
- (5) The subscription price for the Hydros핀 Shares under the Hydros핀 Plan shall be a price determined by the Hydros핀 Directors but shall, if the Hydros핀 Shares are traded on a stock exchange (the "Stock Exchange", being the SEHK or other principal stock exchange in Hong Kong for the time being or such other stock exchange which is the principal stock exchange (as determined by the Hydros핀 Directors) on which the relevant shares are for the time being listed or traded), not be less than the highest of (a) the closing price of the Hydros핀 Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Hydros핀 Shares on the date of the offer of grant of the share options which must be a day on which the banks in the State of Israel are open for business (the "Israel Business Day"); (b) the average closing price of the Hydros핀 Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Hydros핀 Shares for the five Israel Business Days immediately preceding the date of the offer of grant of the share options which must be an Israel Business Day; and (c) the nominal value of a Hydros핀 Share.

## Report of the Directors

The subscription price of any share option granted within the period commencing six months before the listing of the Hydrospin Shares on the Stock Exchange up to the listing date of the Hydrospin Shares on the Stock Exchange shall be adjusted immediately following such listing, at the discretion of the Hydrospin Directors, provided that such subscription price shall not be lower than the new issue price.

- (6) The maximum number of the Hydrospin Shares which may be allotted and issued pursuant to the Hydrospin Plan is as follows:
- (a) the maximum number of the Hydrospin Shares which may be allotted and issued upon the exercise of all outstanding share options granted and yet to be exercised under the Hydrospin Plan and any other share option scheme adopted by the Hydrospin Group ("Other Hydrospin Plan") shall not exceed 30% of the relevant class of securities of Hydrospin (or its subsidiaries) in issue from time to time;
  - (b) the total number of the Hydrospin Shares which may be allotted and issued upon the exercise of all share options (excluding, for this purpose, share options which have lapsed in accordance with the terms of the Hydrospin Plan and Other Hydrospin Plan) to be granted under the Hydrospin Plan and Other Hydrospin Plan must not in aggregate exceed 10% of the relevant class of securities of Hydrospin (or its subsidiaries) in issue as at the date the Hydrospin Plan is approved and adopted by the Hydrospin Directors (the "Hydrospin General Scheme Limit"). Based on the number of the Hydrospin Shares in issue on the date the Hydrospin Plan is approved and adopted, the Hydrospin General Scheme Limit of the Hydrospin Plan is 122 Hydrospin Shares. As at 14 November 2018, the total number of Hydrospin Shares available for issue under the Hydrospin Plan was 122, representing approximately 10% of the total number of the Hydrospin Shares in issue;
  - (c) subject to paragraph 6(a) above and without prejudice to paragraph 6(d) below, the Company may seek approval of its shareholders (the "CKHH Shareholders") in a general meeting to refresh the Hydrospin General Scheme Limit (a circular containing the information required by the Listing Rules to be despatched to the CKHH Shareholders for that purpose) provided that the total number of the Hydrospin Shares which may be allotted and issued upon the exercise of all share options to be granted under the Hydrospin Plan and Other Hydrospin Plan must not exceed 10% of the relevant class of securities of Hydrospin (or its subsidiaries) in issue as at the date of approval of the limit and, for the purpose of calculating the limit, share options (including those outstanding, cancelled, lapsed or exercised in accordance with the Hydrospin Plan and Other Hydrospin Plan) previously granted under the Hydrospin Plan and Other Hydrospin Plan will not be counted;
  - (d) subject to paragraph 6(a) above and without prejudice to paragraph 6(c) above, the Company may seek separate approval of the CKHH Shareholders in a general meeting to grant share options under the Hydrospin Plan beyond the Hydrospin General Scheme Limit (a circular containing the information required by the Listing Rules to be despatched to the CKHH Shareholders for that purpose) or, if applicable, the extended limit referred to in paragraph 6(c) above to participants specifically identified by Hydrospin before such approval is sought; and
  - (e) the total number of the Hydrospin Shares issued, and which may fall to be issued, upon the exercise of the share options granted under the Hydrospin Plan and Other Hydrospin Plan (including both exercised or outstanding share options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the relevant class of securities of Hydrospin for the time being unless approved by the CKHH Shareholders in a general meeting (with such participant and his/her associates (as defined in the Listing Rules) abstaining from voting) in compliance with the requirements of the Listing Rules.

A share option may be exercised in accordance with the terms of the Hydrospin Plan at any time during a period (which may not expire later than 10 years from the date of grant of the share option) to be determined on the date of grant of the share option and notified by the Hydrospin Directors to each grantee, and in the absence of such determination, from the date on which such share option is deemed to have been granted to the date falling 10 years from the date of grant of the share option subject to the provisions for early termination thereof.

No share options were granted under the Hydrospin Plan during the period from 1 January 2018 to 14 November 2018.



#### (IV) Aquarius Spectrum Ltd (“Aquarius”)

On 14 November 2018, Aquarius ceased to be a subsidiary of the Company. Accordingly, the disclosure made for the share option scheme of Aquarius (the “Aquarius Plan”) as set out below is for the period from 1 January 2018 to 14 November 2018.

On 8 July 2015, Aquarius, an incubator company in Israel, adopted the Aquarius Plan for the grant of options to acquire ordinary shares in the share capital of Aquarius (the “Aquarius Shares”). The Aquarius Plan is valid and effective during the period commencing on 8 July 2015 and ending on 7 July 2025, being the date falling 10 years from the date on which the Aquarius Plan was adopted. The Aquarius Plan has a remaining term of approximately six years as at the date of this report. A summary of the Aquarius Plan is as follows:

- (1) The purpose of the Aquarius Plan is to enable Aquarius to grant share options to selected participants as incentives or rewards for their contribution to Aquarius and its subsidiaries (the “Aquarius Group”), to continue and/or render improved service with the Aquarius Group and/or to establish a stronger business relationship between the Aquarius Group and such participants.
- (2) The directors of Aquarius (the “Aquarius Directors”) (which expression shall include a duly authorised committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants to take up share options to subscribe for the Aquarius Shares:
  - (a) any employee or consultant (as to functional areas of finance, business or personnel administration or information technology) (whether full time or part time, including any executive director but excluding any non-executive director) of Aquarius, any of its subsidiaries or any entity in which any member of the Aquarius Group holds an equity interest (the “Aquarius Invested Entity”);
  - (b) any non-executive directors (including independent non-executive directors) of Aquarius, any of its subsidiaries or any Aquarius Invested Entity;
  - (c) any supplier of goods or services to any member of the Aquarius Group or any Aquarius Invested Entity;
  - (d) any customer of any member of the Aquarius Group or any Aquarius Invested Entity;
  - (e) any person or entity that provides research, development or other technological support to any member of the Aquarius Group or any Aquarius Invested Entity;
  - (f) any shareholder of any member of the Aquarius Group or any Aquarius Invested Entity or any holder of any securities issued by any member of the Aquarius Group or any Aquarius Invested Entity;
  - (g) any other group or classes of participants contributing by way of joint venture, business alliance or other business arrangement to the development and growth of the Aquarius Group; and
  - (h) any company wholly owned by any one or more persons belonging to any one or more of the above classes of participants.

The eligibility of any of the above classes of participants to a grant of share options shall be determined by the Aquarius Directors from time to time on the basis of their contribution to the development and growth of the Aquarius Group.

- (3) Share option holders are not required to pay for the acceptance of a grant of share options.
- (4) Unless otherwise determined by the Aquarius Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the Aquarius Plan for the holding of a share option before it can be exercised.

## Report of the Directors

- (5) The subscription price for the Aquarius Shares under the Aquarius Plan shall be a price determined by the Aquarius Directors but shall, if the Aquarius Shares are traded on the Stock Exchange, not be less than the highest of (a) the closing price of the Aquarius Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Aquarius Shares on the date of the offer of grant of the share options which must be an Israel Business Day; (b) the average closing price of the Aquarius Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Aquarius Shares for the five Israel Business Days immediately preceding the date of the offer of grant of the share options which must be an Israel Business Day; and (c) the nominal value of an Aquarius Share.

The subscription price of any share option granted within the period commencing six months before the listing of the Aquarius Shares on the Stock Exchange up to the listing date of the Aquarius Shares on the Stock Exchange shall be adjusted immediately following such listing, at the discretion of the Aquarius Directors, provided that such subscription price shall not be lower than the new issue price.

- (6) The maximum number of the Aquarius Shares which may be allotted and issued pursuant to the Aquarius Plan is as follows:
- (a) the maximum number of the Aquarius Shares which may be allotted and issued upon the exercise of all outstanding share options granted and yet to be exercised under the Aquarius Plan and any other share option scheme adopted by the Aquarius Group ("Other Aquarius Plan") shall not exceed 30% of the relevant class of securities of Aquarius (or its subsidiaries) in issue from time to time;
  - (b) the total number of the Aquarius Shares which may be allotted and issued upon the exercise of all share options (excluding, for this purpose, share options which have lapsed in accordance with the terms of the Aquarius Plan and Other Aquarius Plan) to be granted under the Aquarius Plan and Other Aquarius Plan must not in aggregate exceed 10% of the relevant class of securities of Aquarius (or its subsidiaries) in issue as at the date the Aquarius Plan is approved and adopted by the Aquarius Directors (the "Aquarius General Scheme Limit"). Based on the number of the Aquarius Shares in issue on the date the Aquarius Plan is approved and adopted, the Aquarius General Scheme Limit of the Aquarius Plan is 2,645 Aquarius Shares. As at 14 November 2018, the total number of Aquarius Shares available for issue under the Aquarius Plan was 2,645, representing approximately 4.79% of the total number of the Aquarius Shares in issue;
  - (c) subject to paragraph 6(a) above and without prejudice to paragraph 6(d) below, the Company may seek approval of the CKHH Shareholders in a general meeting to refresh the Aquarius General Scheme Limit (a circular containing the information required by the Listing Rules to be despatched to the CKHH Shareholders for that purpose) provided that the total number of the Aquarius Shares which may be allotted and issued upon the exercise of all share options to be granted under the Aquarius Plan and Other Aquarius Plan must not exceed 10% of the relevant class of securities of Aquarius (or its subsidiaries) in issue as at the date of approval of the limit and, for the purpose of calculating the limit, share options (including those outstanding, cancelled, lapsed or exercised in accordance with the Aquarius Plan and Other Aquarius Plan) previously granted under the Aquarius Plan and Other Aquarius Plan will not be counted;
  - (d) subject to paragraph 6(a) above and without prejudice to paragraph 6(c) above, the Company may seek separate approval of the CKHH Shareholders in a general meeting to grant share options under the Aquarius Plan beyond the Aquarius General Scheme Limit (a circular containing the information required by the Listing Rules to be despatched to the CKHH Shareholders for that purpose) or, if applicable, the extended limit referred to in paragraph 6(c) above to participants specifically identified by Aquarius before such approval is sought; and
  - (e) the total number of the Aquarius Shares issued, and which may fall to be issued, upon the exercise of the share options granted under the Aquarius Plan and Other Aquarius Plan (including both exercised or outstanding share options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the relevant class of securities of Aquarius for the time being unless approved by the CKHH Shareholders in a general meeting (with such participant and his/her associates (as defined in the Listing Rules) abstaining from voting) in compliance with the requirements of the Listing Rules.

A share option may be exercised in accordance with the terms of the Aquarius Plan at any time during a period (which may not expire later than 10 years from the date of grant of the share option) to be determined on the date of grant of the share option and notified by the Aquarius Directors to each grantee, and in the absence of such determination, from the date on which such share option is deemed to have been granted to the date falling 10 years from the date of grant of the share option subject to the provisions for early termination thereof.

No share options were granted under the Aquarius Plan during the period from 1 January 2018 to 14 November 2018.

## (V) Mercu Removal Ltd. ("Mercu")

On 21 August 2018, the share option scheme of Mercu (the "Mercu Plan") was revoked and Mercu ceased to be a subsidiary of the Company. Accordingly, the disclosure made for the Mercu Plan as set out below is for the period from 1 January 2018 to 21 August 2018.

On 23 May 2016, Mercu, an incubator company in Israel, adopted the Mercu Plan for the grant of options to acquire ordinary shares in the share capital of Mercu (the "Mercu Shares"). The Mercu Plan is valid and effective during the period commencing on 23 May 2016 and ending on 22 May 2026, being the date falling 10 years from the date on which the Mercu Plan was adopted. The Mercu Plan has a remaining term of approximately seven years as at the date of this report. A summary of the Mercu Plan is as follows:

- (1) The purpose of the Mercu Plan is to enable Mercu to grant share options to selected participants as incentives or rewards for their contribution to Mercu and its subsidiaries (the "Mercu Group"), to continue and/or render improved service with the Mercu Group, and/or to establish a stronger business relationship between the Mercu Group and such participants.
- (2) The directors of Mercu (the "Mercu Directors") (which expression shall include a duly authorised committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants to take up share options to subscribe for the Mercu Shares:
  - (a) any employee or consultant (as to functional areas of finance, business or personnel administration or information technology) (whether full time or part time, including any executive director but excluding any non-executive director) of Mercu, any of its subsidiaries or any entity in which any member of the Mercu Group holds an equity interest (the "Mercu Invested Entity");
  - (b) any non-executive directors (including independent non-executive directors) of Mercu, any of its subsidiaries or any Mercu Invested Entity;
  - (c) any supplier of goods or services to any member of the Mercu Group or any Mercu Invested Entity;
  - (d) any customer of any member of the Mercu Group or any Mercu Invested Entity;
  - (e) any person or entity that provides research, development or other technological support to any member of the Mercu Group or any Mercu Invested Entity;
  - (f) any shareholder of any member of the Mercu Group or any Mercu Invested Entity or any holder of any securities issued by any member of the Mercu Group or any Mercu Invested Entity;
  - (g) any other group or classes of participants contributing by way of joint venture, business alliance or other business arrangement to the development and growth of the Mercu Group; and
  - (h) any company wholly owned by any one or more persons belonging to any one or more of the above classes of participants.

The eligibility of any of the above classes of participants to a grant of share options shall be determined by the Mercu Directors from time to time on the basis of their contribution to the development and growth of the Mercu Group.

- (3) Share option holders are not required to pay for the acceptance of a grant of share options.
- (4) Unless otherwise determined by the Mercu Directors and stated in the offer of grant of the share options to a grantee, there is no minimum period required under the Mercu Plan for the holding of a share option before it can be exercised.

## Report of the Directors

- (5) The subscription price for the Mercu Shares under the Mercu Plan shall be a price determined by the Mercu Directors but shall, if the Mercu Shares are traded on the Stock Exchange, not be less than the highest of (a) the closing price of the Mercu Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Mercu Shares on the date of the offer of grant of the share options which must be an Israel Business Day; (b) the average closing price of the Mercu Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Mercu Shares for the five Israel Business Days immediately preceding the date of the offer of grant of the share options which must be an Israel Business Day; and (c) the nominal value of a Mercu Share.

The subscription price of any share option granted within the period commencing six months before the listing of the Mercu Shares on the Stock Exchange up to the listing date of the Mercu Shares on the Stock Exchange shall be adjusted immediately following such listing, at the discretion of the Mercu Directors, provided that such subscription price shall not be lower than the new issue price.

- (6) The maximum number of the Mercu Shares which may be allotted and issued pursuant to the Mercu Plan is as follows:
- (a) the maximum number of the Mercu Shares which may be allotted and issued upon the exercise of all outstanding share options granted and yet to be exercised under the Mercu Plan and any other share option scheme adopted by the Mercu Group ("Other Mercu Plan") shall not exceed 30% of the relevant class of securities of Mercu (or its subsidiaries) in issue from time to time;
  - (b) the total number of the Mercu Shares which may be allotted and issued upon the exercise of all share options (excluding, for this purpose, share options which have lapsed in accordance with the terms of the Mercu Plan and Other Mercu Plan) to be granted under the Mercu Plan and Other Mercu Plan must not in aggregate exceed 10% of the relevant class of securities of Mercu (or its subsidiaries) in issue as at the date the Mercu Plan is approved and adopted by the Mercu Directors (the "Mercu General Scheme Limit"). Based on the number of the Mercu Shares in issue on the date the Mercu Plan is approved and adopted, the Mercu General Scheme Limit of the Mercu Plan is 3,000 Mercu Shares. As at 21 August 2018, the total number of Mercu Shares available for issue under the Mercu Plan was 3,000, representing approximately 10% of the total number of the Mercu Shares in issue;
  - (c) subject to paragraph 6(a) above and without prejudice to paragraph 6(d) below, the Company may seek approval of the CKHH Shareholders in a general meeting to refresh the Mercu General Scheme Limit (a circular containing the information required by the Listing Rules to be despatched to the CKHH Shareholders for that purpose) provided that the total number of the Mercu Shares which may be allotted and issued upon the exercise of all share options to be granted under the Mercu Plan and Other Mercu Plan must not exceed 10% of the relevant class of securities of Mercu (or its subsidiaries) in issue as at the date of approval of the limit and, for the purpose of calculating the limit, share options (including those outstanding, cancelled, lapsed or exercised in accordance with the Mercu Plan and Other Mercu Plan) previously granted under the Mercu Plan and Other Mercu Plan will not be counted;
  - (d) subject to paragraph 6(a) above and without prejudice to paragraph 6(c) above, the Company may seek separate approval of the CKHH Shareholders in a general meeting to grant share options under the Mercu Plan beyond the Mercu General Scheme Limit (a circular containing the information required by the Listing Rules to be despatched to the CKHH Shareholders for that purpose) or, if applicable, the extended limit referred to in paragraph 6(c) above to participants specifically identified by Mercu before such approval is sought; and
  - (e) the total number of the Mercu Shares issued, and which may fall to be issued, upon the exercise of the share options granted under the Mercu Plan and Other Mercu Plan (including both exercised or outstanding share options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the relevant class of securities of Mercu for the time being unless approved by the CKHH Shareholders in a general meeting (with such participant and his/her associates (as defined in the Listing Rules) abstaining from voting) in compliance with the requirements of the Listing Rules.

A share option may be exercised in accordance with the terms of the Mercu Plan at any time during a period (which may not expire later than 10 years from the date of grant of the share option) to be determined on the date of grant of the share option and notified by the Mercu Directors to each grantee, and in the absence of such determination, from the date on which such share option is deemed to have been granted to the date falling 10 years from the date of grant of the share option subject to the provisions for early termination thereof.

No share options were granted under the Mercu Plan during the period from 1 January 2018 to 21 August 2018.

Save as disclosed above, at no time during the year was the Company or a subsidiary a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisitions of shares in, or debentures of, the Company or any other body corporate.

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year.

## Purchase, Sale or Redemption of Listed Securities

During the year ended 31 December 2018, the Company repurchased a total of 1,438,000 ordinary shares of HK\$1.00 each in the capital of the Company on the SEHK, with the aggregate consideration paid (before expenses) amounting to HK\$130,005,175.00. All the shares repurchased were subsequently cancelled. The Directors believed that such repurchase of shares would enhance the net assets and/or earnings per share of the Company and benefit the Company and its shareholders. As at 31 December 2018, the total number of shares of the Company in issue was 3,856,240,500.

Particulars of the share repurchase are as follows:-

Date	Number of shares repurchased	Purchase price per share		Aggregate consideration (before expenses) (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
September 2018	1,438,000	91.05	89.05	130,005,175.00

Save as disclosed above, during the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

## Pre-emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association of the Company or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## Major Customers and Suppliers

During the year, the respective percentage of purchases attributable to the Group's five largest suppliers combined and the revenue from sales of goods or rendering of services attributable to the Group's five largest customers combined was less than 30% of the total value of Group purchases and total Group revenue.

## Sufficiency of Public Float

As at the date of this report, based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, the Company has maintained the prescribed public float under the Listing Rules.

## Auditor

The financial statements for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers, Certified Public Accountants, who will retire and, being eligible, offer themselves for re-appointment at the 2019 annual general meeting.

By order of the Board

**Edith Shih**

*Executive Director and Company Secretary*

Hong Kong, 21 March 2019