

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 2019.

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 259 to 262.

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 2019 (if any) as well as an indication of likely future development in the business of the Group are provided in the Chairman's Statement, Operations Review, Analyses of Core Business Segments by Geographical Location, Analyses by Core Business Segments, Key Financial Information and Business Highlights on pages 4 to 62 and Risk Factors on pages 69 to 75 of this annual report. To the extent necessary for an understanding of the development, performance or position of the Group's business, 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 Responsibility" section on pages 126 to 128 of the Corporate Governance 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 Corporate Governance Report on page 128 of this annual report. All such discussions form part of this report.

Group Profit

The Consolidated Income Statement is set out on page 134 and shows the Group profit for the year ended 31 December 2019.

Dividends

An interim dividend of HK\$0.87 per share was paid to shareholders on 12 September 2019.

The Directors recommended the declaration of a final dividend of HK\$2.30 per share to be payable on Friday, 29 May 2020 to all persons registered as holders of shares on the register of members of the Company on Wednesday, 20 May 2020, 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 257 to 258 and the Consolidated Statement of Changes in Equity on pages 138 to 139 respectively.

Charitable Donations

Donations to charitable organisations by the Group during the year amounted to approximately HK\$24 million (2018 – approximately HK\$42 million).

Fixed Assets

Particulars of the movements of fixed assets are set out in note 9 to the financial statements on pages 164 to 165.

Report of the Directors

Share Capital

Details of the shares movement during the year are set out in note 30 to the financial statements on page 197.

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.

Mr Fok Kin Ning, Canning, Mr Kam Hing Lam, Ms Edith Shih, Mr Chow Kun Chee, Roland, Mr Leung Siu Hon, Mr Cheng Hoi Chuen, Vincent and Mr Wong Chung Hin will retire by rotation at the forthcoming annual general meeting pursuant to Article 111(A) of the Articles of Association of the Company. Mr Wong Chung Hin will not offer himself for re-election at the forthcoming annual general meeting while all other retiring Directors, being eligible, will offer themselves for re-election.

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 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 2019 and up to the date of this report, the Group conducted the following transaction which constituted a variation of the connected transaction of the Company as disclosed in an announcement dated 31 August 2018 (the "August 2018 Announcement"), in respect of which an announcement dated 29 March 2019 (the "March 2019 Announcement") was issued.

As disclosed in the August 2018 Announcement issued by the Company and the 2018 Annual Report, 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")) on 31 August 2018 pursuant to which CKH Sub would 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.

Subsequently, as jointly announced by the Company and CKA in the March 2019 Announcement, the Company, CKH Sub and CKA Sub entered into a supplemental agreement (the "CKA Sub Supplemental Agreement") on the same day to amend and restate the Economic Benefits Agreement on the terms of and subject to the conditions set out in the CKA Sub Supplemental Agreement.

Subject to the satisfaction (or, where applicable, waiver) of the conditions summarised in the March 2019 Announcement, the Economic Benefits Agreement will be amended and restated pursuant to the CKA Sub Supplemental Agreement to provide certain ancillary protections in relation to CKA Sub's interest in the Economic Benefits Amounts under the existing terms of the Economic Benefits Agreement which will, on one hand, enhance the protection of the CKA group's interest in relation to its Economic Benefits Amounts through the voting arrangement provided to CKA Sub over the exercise of 40% of the voting rights at general meetings of any Voting Right Company (as defined in the March 2019 Announcement) and the director nomination rights to the relevant Voting Right Companies (other than 1822604 Alberta Ltd.) and thereby further solidify its interests in the relevant infrastructure businesses with effect from the Amendment Effective Date (as defined in the March 2019 Announcement), while, on the other hand, streamline the existing operation of the Economic Benefits Agreement for the Company and CKH Sub.

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. The CKA Sub Supplemental Agreement constituted a variation of the connected transaction of the Company as disclosed in the August 2018 Announcement, and the variation may be regarded as material. 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 and the CKA Sub Supplemental Agreement, he had voluntarily abstained from voting on the board resolutions of the Company for approving the Economic Benefits Agreement and the CKA Sub Supplemental Agreement.

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 an 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 two years ended 31 December 2018 and 2019, and the year ending 31 December 2020 would not exceed HK\$770 million, HK\$891 million and HK\$937 million respectively.

For the year ended 31 December 2019, the aggregate amount paid by the Group to the CKA group in respect of the Leasing Transactions (the "2019 CCTs") was approximately HK\$725 million (representing approximately 81% of the annual cap for 2019 as disclosed in the Announcement).

The internal audit of the Group has reviewed the 2019 CCTs and the relevant internal control procedures in respect of the negotiation, review, approval, agreement, management, reporting and monitoring process of the 2019 CCTs, and is of the view that the 2019 CCTs were conducted in accordance with the terms of the Master Leasing Agreement and in compliance with the internal control procedures.

Report of the Directors

All the Independent Non-executive Directors of the Company, having reviewed the 2019 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 2019 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 2019 CCTs have not been approved by the Board;
- (ii) the 2019 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 2019 CCTs has exceeded the annual cap for 2019 as disclosed in the Announcement.

A summary of all related parties transactions entered into by the Group during the year ended 31 December 2019 is contained in note 37 to the 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.

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 2019 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 Information on Directors on pages 82 to 88.

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 2019, 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:

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 ⁽¹⁾	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 ⁽¹⁾	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 ⁽¹⁾	26.01%
Li Ka-shing	Interest of controlled corporations	71,207,800)		
)		
	Founder of discretionary trusts	1,160,195,710)	1,161,403,510 ⁽²⁾	30.11%
)		

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" in the Information on Directors.
- (2) The 1,161,403,510 shares of the Company comprise:
- (a) 71,207,800 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 and 500,000 shares held by Li Ka Shing Foundation Limited ("LKSF") and a wholly owned subsidiary of Li Ka Shing (Global) Foundation ("LKSGF") respectively. By virtue of the terms of the constituent documents of LKSF and LKSGF, 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 and LKSGF.
- (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" in the Information on Directors. As Mr Li Ka-shing may be regarded as a founder of each of DT1, DT2 and two discretionary trusts (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.

Save as disclosed above, as at 31 December 2019, 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.

Report of the Directors

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")

On 2 October 2019, Chi-Med ceased to be a subsidiary of the Company. Accordingly, the disclosure in respect of the share option schemes of Chi-Med below only covers the period from 1 January 2019 to 2 October 2019 (the "Relevant Period").

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 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
 - (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:
 - (i) the average of the closing prices of the Chi-Med Shares on the five dealing days immediately preceding the offer date;
 - (ii) 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
 - (iii) 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, 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 2 October 2019, the total number of Chi-Med Shares available for issue under the 2006 Plan (including the share options granted but yet to be exercised) was 1,636,180, representing approximately 0.25% 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) 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; but notwithstanding the aforesaid, share options may be granted to any 2006 Chi-Med Eligible Person(s) which would cause the aforesaid limit to be exceeded, but only with the approval of the shareholders of the listed parent company 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.

Report of the Directors

Particulars of share options outstanding under the 2006 Plan at the beginning and at the end of the Relevant Period and share options granted, exercised, cancelled or lapsed under the 2006 Plan during the Relevant Period were as follows:

2006 Plan

Category of participants	Date of grant of share options	Number of share options held as at 1 January 2019 ⁽³⁾	Granted during the Relevant Period	Exercised during the Relevant Period	Lapsed/ cancelled during the Relevant Period	Number of share options held as at 2 October 2019 ⁽³⁾	Exercise period of share options	Exercise price of share options ⁽³⁾ £	Price of Chi-Med Share	
									prior to the grant date of share options ⁽³⁾ £	prior to the exercise date of share options £
Employees										
in aggregate	24.6.2011 ⁽¹⁾	750,000	–	–	–	750,000	24.6.2011 to 23.6.2021	0.4405	0.4400 ⁽²⁾	N/A
	20.12.2013 ⁽¹⁾	1,095,180	–	(209,000)	–	886,180	20.12.2013 to 19.12.2023	0.6100	0.6100 ⁽²⁾	3.39 ⁽⁴⁾
Total:		1,845,180	–	(209,000)	–	1,636,180				

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 prices were the adjusted prices as a result of the share subdivision mentioned in Note (3) below. The prices prior to the adjustment were closing prices of the Chi-Med Shares quoted on AIM on the trading day immediately prior to the respective dates of grant of share options.
- (3) Effective from 30 May 2019, each ordinary share of US\$ 1.00 each of Chi-Med was subdivided into 10 new ordinary shares of US\$0.10 each. Accordingly, adjustments have been made to the number of share options by multiplying the number by 10 and to the share price and exercise price by dividing the price by 10 pursuant to the terms of the 2006 Plan.
- (4) 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 six 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 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,

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

- (a) where the Chi-Med Shares of the same class are admitted to trading on any stock exchange, the higher of:
- (i) the average of the closing prices of the Chi-Med Shares on the five dealing days immediately preceding the offer date;
 - (ii) 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
 - (iii) the nominal value of the Chi-Med Shares; or
- (b) 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, 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 2 October 2019, the total number of Chi-Med Shares available for issue under the 2016 Plan (including the share options granted but yet to be exercised) was 23,130,970, 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) 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; but notwithstanding the aforesaid, the Chi-Med Board may grant the Relevant Chi-Med Options to any 2016 Chi-Med Eligible Person(s) which would cause the aforesaid limit to be exceeded, but only with the approval of the shareholders of the listed parent company 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.

Report of the Directors

Particulars of share options outstanding under the 2016 Plan at the beginning and at the end of the Relevant Period and share options granted, exercised, cancelled or lapsed under the 2016 Plan during the Relevant Period 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 2019 ⁽⁴⁾	Granted during the Relevant Period ⁽⁴⁾	Exercised during the Relevant Period	Lapsed/ cancelled during the Relevant Period ⁽⁴⁾	Number of share options held as at 2 October 2019 ⁽⁴⁾	Exercise period of share options	Exercise price of share options ⁽⁴⁾ £	Price of Chi-Med Share	
									prior to the grant date of share options ⁽⁴⁾ £	prior to the exercise date of share options £
Director										
Weiguo Su	15.6.2016 ⁽¹⁾	3,000,000	–	–	–	3,000,000	15.6.2016 to 19.12.2023	1.9700	1.9750 ⁽³⁾	N/A
	27.3.2017 ⁽²⁾	1,000,000	–	–	–	1,000,000	27.3.2017 to 26.3.2027	3.1050	3.1050 ⁽³⁾	N/A
	19.3.2018 ⁽²⁾	1,000,000	–	–	–	1,000,000	19.3.2018 to 18.3.2028	4.9740	4.8900 ⁽³⁾	N/A
Employees in aggregate										
	15.6.2016 ⁽¹⁾	2,936,860	–	–	–	2,936,860	15.6.2016 to 19.12.2023	1.9700	1.9750 ⁽³⁾	N/A
	20.4.2018 ⁽²⁾	7,293,450	–	–	(853,290)	6,440,160	20.4.2018 to 19.4.2028	4.6450	4.5900 ⁽³⁾	N/A
	6.6.2018 ⁽²⁾	369,360	–	–	–	369,360	6.6.2018 to 5.6.2028	4.1660	4.1100 ⁽³⁾	N/A
	6.8.2018 ⁽²⁾	680,000	–	–	–	680,000	6.8.2018 to 5.8.2028	4.8600	5.0000 ⁽³⁾	N/A
	19.10.2018 ⁽²⁾	430,000	–	–	(175,000)	255,000	19.10.2018 to 18.10.2028	4.6100	4.6000 ⁽³⁾	N/A
	21.5.2019 ⁽²⁾	–	180,000	–	–	180,000	21.5.2019 to 20.5.2029	4.2200	4.1750 ⁽³⁾	N/A
Total:		16,709,670	180,000	–	(1,028,290)	15,861,380				

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 stated prices were the adjusted prices as a result of the share subdivision mentioned in Note (4) below. The prices prior to the adjustment were closing prices of the Chi-Med Shares quoted on AIM on the trading day immediately prior to the respective dates of grant of share options.
- (4) Effective from 30 May 2019, each ordinary share of US\$1.00 each of Chi-Med was subdivided into 10 new ordinary shares of US\$0.10 each. Accordingly, adjustments have been made to the number of share options by multiplying the number by 10 and to the share price and exercise price by dividing the price by 10 pursuant to the terms of the 2016 Plan.

As at 2 October 2019, Chi-Med had 1,636,180 share options and 15,861,380 share options outstanding under the 2006 Plan and 2016 Plan respectively, representing approximately 0.25% and 2.38% respectively of the Chi-Med Shares in issue.

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

Value of each share option	£1.51*
Significant inputs into the valuation model:	
Exercise price	£4.22*
Share price at effective grant date	£4.22*
Expected volatility	37.74%
Risk-free interest rate	1.08%
Contractual life of share options	10 years
Expected dividend yield	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 was valid and effective during the period from 21 May 2009 to 20 May 2019, being the date falling 10 years from the date on which the HTHKH Plan became unconditional. After 20 May 2019, no further share options could be granted under the HTHKH Plan. 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

* Effective from 30 May 2019, each ordinary share of US\$1.00 each of Chi-Med was subdivided into 10 new ordinary shares of US\$0.10 each. Accordingly, adjustments have been made to the number of share options by multiplying the number by 10 and to the share price and exercise price by dividing the price by 10 pursuant to the 2016 Plan.

Report of the Directors

(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;
 - (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;

- (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 2019 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 ⁽¹⁾	Number of share options held as at 1 January 2019	Granted during 2019	Exercised during 2019	Lapsed/cancelled during 2019	Number of share options held as at 31 December 2019	Exercise period of share options	Exercise price of share options ⁽²⁾ HK\$	Price of HTHKH Share	
									prior to the grant date of share options ⁽³⁾ HK\$	prior to the exercise date of share options ⁽⁴⁾ HK\$
Employees										
in aggregate	1.6.2009	200,000	–	(200,000)	–	–	1.6.2009 to 31.5.2019	1.00	0.96	3.32

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 was 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.
- (4) The stated price was the closing price of the HTHKH Shares on the SEHK on the trading day immediately prior to the date of exercise of the share options.

As at the date of this report, there are no share options outstanding under the HTHKH Plan.

No share option was granted under the HTHKH Plan during the year ended 31 December 2019.

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.

Report of the Directors

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 2019, 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 2019 have been audited by PricewaterhouseCoopers, Certified Public Accountants, who will retire and, being eligible, offer themselves for re-appointment at the 2020 annual general meeting.

By order of the Board

Edith Shih

Executive Director and Company Secretary

Hong Kong, 19 March 2020