

Directors' Report

The Directors have pleasure in submitting to shareholders their report and the audited financial statements for the year ended 31 December 2020.

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 2020 (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" and "Business Highlights" on pages 4 to 62 and "Risk Factors" on pages 69 to 75 of this annual report. Discussions on the Group's environmental policies and performance, the Group's compliance with the relevant laws and regulations that have a significant impact on the Group as well as an account of the Group's key relationships with its stakeholders that have a significant impact on the Group and on which the Group's success depends, are provided in the "Sustainability" section on pages 120 to 122 of the "Corporate Governance Report". All such discussions form part of this report.

GROUP PROFIT

The Consolidated Income Statement is set out on page 128 and shows the Group profit for the year ended 31 December 2020.

DIVIDENDS

An interim dividend of HK\$0.614 per share for the first half of 2020 was paid to shareholders in mid September 2020.

The Directors recommended the declaration of a final dividend of HK\$1.70 per share to be payable on Thursday, 3 June 2021 to all persons registered as holders of shares on the register of members of the Company on Thursday, 20 May 2021, 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 45 to the financial statements on pages 257 to 258 and the Consolidated Statement of Changes in Equity on pages 132 to 133 respectively.

CHARITABLE DONATIONS

Donations to charitable organisations by the Group during the year amounted to approximately HK\$76 million (2019 – approximately HK\$24 million).

FIXED ASSETS

Particulars of the movements of fixed assets are set out in note 12 to the financial statements on pages 170 to 171.

SHARE CAPITAL

Details of the shares movement during the year are set out in note 32 to the financial statements on page 203.

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 Paul Joseph Tighe, Mr Wong Kwai Lam and Dr Wong Yick-ming, Rosanna.

The following changes to the Board composition were effected during 2020 and prior to the date of this report:

- (1) Mr Wong Chung Hin retired as an Independent Non-executive Director on 14 May 2020;
- (2) Mr Wong Kwai Lam was appointed as an Independent Non-executive Director on 14 May 2020;
- (3) Mr William Shurniak, an Independent Non-executive Director, passed away on 9 August 2020; and
- (4) Mr Paul Joseph Tighe was appointed as an Independent Non-executive Director on 28 December 2020.

Mr Wong Chung Hin has no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholders of the Company.

Mr Paul Joseph Tighe, who was appointed on 28 December 2020, will hold office until the forthcoming annual general meeting (the “2021 AGM”) pursuant to the provision of Article 101 of the Articles of Association of the Company and, being eligible, will offer himself for re-election at the 2021 AGM.

Mr Ip Tak Chuen, Edmond, Mr Lai Kai Ming, Dominic, Mr Lee Yeh Kwong, Charles, Mr George Colin Magnus, Mr Kwok Tun-li, Stanley and Dr Wong Yick-ming, Rosanna will retire by rotation at the 2021 AGM pursuant to Article 111(A) of the Articles of Association of the Company. Mr Kwok Tun-li, Stanley will not be seeking re-election at the 2021 AGM 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” section of this annual report.

DIRECTORS’ SERVICE CONTRACT

None of the Directors of the Company who are proposed for re-election at the 2021 AGM 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

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.

CONTINUING CONNECTED TRANSACTIONS

As announced by the Company on 15 December 2017 (the "2017 Announcement"), the Company entered into an agreement (the "Master Leasing Agreement") with CK Asset Holdings Limited ("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 addition, 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 basis of management/service fees chargeable by the CKA group to relevant members of the Group would be the same as those the CKA group would charge other tenants or licensees of the same building or property.

CKA is deemed by The Stock Exchange of Hong Kong Limited (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 2017 Announcement, the maximum aggregate annual amount payable by the Group in respect of the Leasing Transactions for each of the three years ended 31 December 2018, 2019 and 2020 would not exceed HK\$770 million, HK\$891 million and HK\$937 million respectively.

For the year ended 31 December 2020, the aggregate amount paid by the Group to the CKA group in respect of the Leasing Transactions (the "2020 CCTs") was approximately HK\$727 million (representing approximately 78% of the annual cap for 2020 as disclosed in the 2017 Announcement).

The internal audit of the Group has reviewed the 2020 CCTs and the relevant internal control procedures in respect of the negotiation, review, approval, agreement management, reporting, consolidation and monitoring process of the 2020 CCTs, and is of the view that the 2020 CCTs were conducted in accordance with the terms of the Master Leasing Agreement (including the pricing policy/mechanism thereunder), and that the internal control procedures in respect of the 2020 CCTs are sound and effective.

All the Independent Non-executive Directors of the Company, having reviewed the 2020 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, PricewaterhouseCoopers, to report on the 2020 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 2020 CCTs have not been approved by the Board;
- (ii) the 2020 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 2020 CCTs has exceeded the annual cap for 2020 as disclosed in the 2017 Announcement.

In anticipation of the expiration of the Master Leasing Agreement on 31 December 2020, the Company and CKA had on 18 December 2020 entered into a new master leasing agreement (the "New Master Leasing Agreement") setting out the framework terms governing the leasing transactions for the three financial years ending 31 December 2023. The terms of the New Master Leasing Agreement are substantially the same as those of the Master Leasing Agreement.

The Company and CKA had also on the same day entered into a new master purchase agreement (the “New Master Purchase Agreement”) in relation to the purchases of goods (such as air-conditioners and other electrical appliances and gift/cash coupons) and services (such as printing of sales brochures and advertising materials) by the CKA group from the Group for use in connection with the CKA group’s property development projects for the three financial years ending 31 December 2023.

Details of the New Master Leasing Agreement and the New Master Purchase Agreement will be reported in the next annual report of the Company in accordance with the Listing Rules.

Related parties transactions of the Group during the year ended 31 December 2020 are described in note 39 to the financial statements. None of such related parties transactions constitutes a non-exempted 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 2020 and as of the date of this report.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

Directors’ and chief executives’ interests and short positions in shares, underlying shares and debentures are set out in the section “Information on Directors” on pages 83 to 89.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE

So far as the Directors and chief executives of the Company are aware, as at 31 December 2020, other than the interests of the Directors and chief executives 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:

Directors' Report

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	2,736,300)		
)		
	Founder of discretionary trusts	1,160,195,710)		
)	1,162,932,010 ⁽²⁾	30.15%

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 DT2 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 1,162,932,010 shares of the Company comprise:
- (a) 2,736,300 shares of the Company of which:
- 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.
 - 951,500 shares held by a company which is equally controlled by Mr Li Ka-shing and Mr Li Tzar Kuoi, Victor.
 - 300,000 and 1,077,000 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 other 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 2020, no other person (other than the Directors and chief executives 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 SCHEME

Neither the Company nor its subsidiaries had any share option scheme during the year ended 31 December 2020.

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 2020, 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 2020 have been audited by PricewaterhouseCoopers, Certified Public Accountants, who will retire and, being eligible, offer themselves for re-appointment at the 2021 AGM.

By order of the Board

Edith Shih

Executive Director and Company Secretary

Hong Kong, 18 March 2021