

Hutchison Whampoa Limited

Key Takeaways

The board is seeking shareholder approval for the acquisition of all outstanding Hutchison Whampoa (Hutchison) shares by CK Hutchison Holdings (CKH) for the consideration of 0.684 CKH share per Hutchison share. As part of a series of interrelated transactions, shareholder approval is also required for the CKH's acquisition of a 6.24 percent stake in Husky Energy for a consideration 1.376 CKH shares per Husky share.

These transactions are part of group reorganization which would result in all non-property businesses of the combined entities amalgamated into CKH, and all property businesses transferred to a company to be newly listed.

Shareholders of the combined entities will receive shares in the property businesses by way of distribution in specie.

While the share exchange ratio may not represent the highest valuation Hutchison shareholders might have hoped for, it is sufficiently robust that it offers reasonable value to Hutchison shareholders as compared to their alternatives. The transactions would also enable shareholders to hold shares directly in separately-traded property and non-property businesses, and would remove the layered ownership structure, which in turn could help reduce the holding company discount on CKH shares post-transaction. Given these benefits, and the endorsement of the market response which has bid up Hutchison shares more than 20 percent since the announcement, a vote FOR Items 1 and 2 is warranted.

A vote AGAINST the election of Vincent Cheng Hoi Chuen in Item 3 is warranted given that he serves on a total of more than six public company boards.

Meeting Type: Special
Meeting Date: 20 April 2015
Record Date: 14 April 2015
Meeting ID: 959563

Hong Kong Exchanges and Clearing Ltd: 00013
Index: Hang Seng
Sector: Industrial Conglomerates
GICS: 20105010

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Agenda & Recommendations

Policy: Hong Kong

Incorporated: Hong Kong

Item	Code	Proposal	Board Rec.	ISS Rec.
MANAGEMENT PROPOSALS				
1	M0406	Approve Scheme of Arrangement	FOR	FOR
2	M0410	Approve Husky Share Exchange	FOR	FOR
3	M0201	Elect Cheng Hoi Chuen, Vincent as Director	FOR	AGAINST

Shading indicates that ISS recommendation differs from Board recommendation

► Items deserving attention due to contentious issues or controversy

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Engagement

Dates	Between	Notes
2 April 2015	ISS, Issuers	ISS held a conference call with management of CK Hutchison Holdings and Hutchison Whampoa to understand the strategic benefits and valuation basis for the proposed scheme of arrangement, and explained the respective companies' corporate governance structures.

Note: ISS engages in ongoing dialogue with issuers in order to ask for additional information or clarification, but not to engage on behalf of its clients. Any draft review which may occur as part of this process is done for purposes of data verification only. All ISS recommendations are based solely upon publicly disclosed information.

Material Company Updates

Item	Summary
<i>Joint Announcement of Reorganization of Cheung Kong-Hutchison Group of Companies</i>	<p>On Jan. 9, 2015 after the close of trading, Hutchison Whampoa Ltd. (Hutchison) and Cheung Kong (Holdings) Ltd. (Cheung Kong) jointly released the announcement of the proposed reorganization of the group in relation to the reorganization and combination of the businesses of the Cheung Kong Group and the Hutchison Group to create two new Hong Kong listed companies as follows:</p> <ul style="list-style-type: none">• CK Hutchison Holdings Ltd. (CKH), which will take over all the non-property businesses of both groups; and• Cheung Kong Property Holdings Ltd., which will combine the property businesses of both groups. <p>The merger of Cheung Kong (now CKH) and Hutchison is being put to vote at the EGMs for shareholders of Hutchison and Cheung Kong on April 20, 2015.</p>
<i>Completion of the Reorganization of CK Hutchison Holdings Ltd.</i>	<p>On Feb. 25, 2015, shareholders of Cheung Kong approved the reorganization of Cheung Kong such that the newly incorporated CKH is now the holding company of the Cheung Kong group of companies. CKH is listed on the Main Board of the Stock Exchange of Hong Kong while Cheung Kong has been delisted. This cleared the first stage for the group reorganization plan.</p>
<i>Proposed Hutchinson Acquisition of O2</i>	<p>On Jan. 23, 2015, Hutchison announced that it is in exclusive negotiations with Telefónica, S.A for the acquisition of Telefonica Europe plc (O2 UK) for an indicative price of £9.25 billion and deferred upside interest-sharing payments of up to a further £1 billion. O2 UK owns the telecommunications business in the UK under the commercial brand 'O2'. The acquisition of O2 UK, together with Hutchison's existing investment in the telecommunications business carried on in the UK by a wholly-owned subsidiary of Hutchison under the commercial brand '3', will create the largest mobile telecommunications operator in the UK in terms of subscriber numbers.</p> <p>The acquisition will be funded by a £6 billion bridge facility from HSBC Bank plc and Hutchison's own cash resources.</p>

Corporate Governance Profile

BOARD & COMMITTEE SUMMARY

	Independence	Members	Meetings
Full Board	36%	14	4
Audit	100%	3	4
Compensation	67%	3	2
Nominating	N/A	N/A	N/D

Chairman classification	Executive Director
Separate chair/CEO	Yes
Number of directors attending < 75% of meetings	0
Number of directors on excessive number of outside boards	2
Average director age	70 years
Average director tenure	21 years
Percentage of women on board	14%

Board Profile

Director Independence & Affiliations

EXECUTIVE DIRECTORS

On Ballot	Name	Affiliation	Independence Classification		Attend <75%	Gender	Age	Tenure	Term Ends	Outside		Key Committees		
			Company	ISS						Boards	CEO	Audit	Comp	Nom
	Ka-Shing Li	Chair	Non-Independent	Executive Director		M	86	36		1				M
	Susan Chow Woo Mo Fong		Non-Independent	Executive Director		F	61	22		3				
	Canning Kin-ning Fok	Managing Director	Non-Independent	Executive Director		M	63	31		7				
	Hing Lam Kam		Non-Independent	Executive Director		M	68	22		3				
	Dominic Lai Kai Ming		Non-Independent	Executive Director		M	61	15		2				
	Victor Li Tzar Kuoi		Non-Independent	Executive Director		M	50	20		5				
	Frank John Sixt		Non-Independent	Executive Director		M	63	24		7				

NON-EXECUTIVE DIRECTORS

On Ballot	Name	Affiliation	Independence Classification		Attend <75%	Gender	Age	Tenure	Term Ends	Outside		Key Committees		
			Company	ISS						Boards	CEO	Audit	Comp	Nom
✓	Vincent Hoi Chuen Cheng		Independent	Independent		M	66	0*	2018	6			M	M
	Michael Kadoorie		Independent	Independent		M	73	20		2				
	Rose Lee Wai Mun		Independent	Independent		F	62	3		2	✓			
	Charles Lee Yeh Kwong	Former employee, Other (see footnotes)	Non-Independent	Non-Independent		M	78	2		1				
	George Colin Magnus	Former employee	Non-Independent	Non-Independent		M	79	35		4				
	William Shurniak		Independent	Independent		M	83	31		1				F
	Chung-hin Wong		Independent	Independent		M	81	31		2			C	F C

M = Member | C = Chair | F = Financial Expert

*Indicates director not previously submitted to shareholders for election.

Director Notes

Charles Lee Yeh Kwong Executive director of the company from 1979 to 1997. One of the founders of Woo, Kwan, Lee & Lo, a solicitor for various Hutchison/Cheung Kong group companies.

George Colin Magnus Executive director until 2005, and a non-independent director of CK Hutchison Holdings Ltd., a substantial shareholder of the company.

Director Employment, Compensation & Ownership

Name	Primary Employment	Outside Boards	Total Compensation*	Shares Held	Options	Total	Voting Power (%)
Ka-Shing Li	Chairman,	CK Hutchison Holdings	50,000	2,236,232,773	0	2,236,232,773	52.45*

	Executive Director - Hutchison Whampoa Limited	Limited					
Susan Chow Woo Mo Fong	Executive Director, Deputy Group Managing Director - Hutchison Whampoa Limited	Cheung Kong Infrastructure Holdings Ltd, Hutchison Telecommunications Hong Kong Holdings Ltd., Hutchison Telecommunications (Australia) Ltd.	48,880,000	190,000	0	190,000	<1
Canning Kin-ning Fok	Executive Director, Managing Director - Hutchison Whampoa Limited	Hutchison Telecommunications Hong Kong Holdings Ltd., Hutchison Telecommunications (Australia) Ltd, Husky Energy Inc., Cheung Kong Infrastructure Holdings Ltd, Power Assets Holdings Ltd., HK Electric Investments Limited, CK Hutchison Holdings Limited	188,190,000	6,010,875	0	6,010,875	<1
Vincent Hoi Chuen Cheng		MTR Corporation Ltd, Great Eagle Holdings Ltd., CLP Holdings Ltd., Shanghai Industrial Holdings Ltd., China Minsheng Banking Corp., Ltd. Wing Tai Properties Limited	0	0	0		0.00
Michael Kadoorie		CLP Holdings Ltd., The Hongkong and Shanghai Hotels Ltd.	120,000	15,984,095	0	15,984,095	<1
Hing Lam Kam	Executive Director - Hutchison Whampoa Limited	Cheung Kong Infrastructure Holdings Ltd, CK Life Sciences International (Holdings) Inc., CK Hutchison Holdings Limited	10,960,000	100,000	0	100,000	<1
Dominic Lai Kai Ming	Executive Director - Hutchison Whampoa Limited	Hutchison Telecommunications Hong Kong Holdings Ltd., Hutchison Telecommunications (Australia) Ltd	43,960,000	50,000	0	50,000	<1
Rose Lee Wai Mun	CEO, Executive Director, Vice/Deputy Chairman - Hang Seng Bank	Swire Pacific Limited, Hang Seng Bank	120,000	0	0		0.00
Charles Lee Yeh		CK Hutchison Holdings	110,000	1,145,358	0	1,145,358	<1

Kwong		Limited					
Victor Li Tzar Kuoi	Executive Director, Vice/Deputy Chairman - Hutchison Whampoa Limited	Cheung Kong Infrastructure Holdings Ltd, CK Life Sciences International (Holdings) Inc., Power Assets Holdings Ltd., Husky Energy Inc., CK Hutchison Holdings Limited	52,660,000	2,143,085,543	0	2,143,085,543	50.27*
George Colin Magnus		Cheung Kong Infrastructure Holdings Ltd, Husky Energy Inc., HK Electric Investments Ltd., CK Hutchison Holdings Limited	120,000	1,000,000	0	1,000,000	<1
William Shurniak		Husky Energy Inc.	250,000	165,000	0	165,000	<1
Frank John Sixt	Executive Director, Group Finance Director - Hutchison Whampoa Limited	Cheung Kong Infrastructure Holdings Ltd, Power Assets Holdings Ltd., Hutchison Telecommunications Hong Kong Holdings Ltd., Hutchison Telecommunications (Australia) Ltd, Husky Energy Inc., TOM Group Ltd., CK Hutchison Holdings Limited	46,680,000	200,000	0	200,000	<1
Chung-hin Wong		The Bank Of East Asia, Limited, Power Assets Holdings Ltd.	310,000	0	0		0.00

*Local market currency

Additional Notes

Both Li Ka-Shing and Victor Li Tzar Kuoi are deemed interested in 2,141,698,773 shares held through various trusts.

Vote Results for Annual General Meeting 16 May 2014

Proposal	Mgmt Rec	ISS Rec	Disclosed Result	% For	% Against	% Abstain
1 Accept Financial Statements and Statutory Reports	For	For	Pass	100.0	0.0	0.0
2 Declare Final Dividend	For	For	Pass	100.0	0.0	0.0
3a Elect Fok Kin Ning, Canning as Director	For	For	Pass	96.6	3.4	0.0
3b Elect Lai Kai Ming, Dominic as Director	For	Against	Pass	83.3	16.7	0.0
3c Elect Kam Hing Lam as Director	For	Against	Pass	82.8	17.2	0.0
3d Elect William Shurniak as Director	For	For	Pass	98.0	2.0	0.0
3e Elect Wong Chung Hin as Director	For	For	Pass	97.9	2.1	0.0
4 Approve Auditors and Authorize Board to Fix Their Remuneration	For	For	Pass	99.9	0.1	0.0
5a Approve Issuance of Equity or Equity-Linked Securities without Preemptive Rights	For	Against	Pass	76.2	23.8	0.0
5b Authorize Repurchase of Up to 10 Percent of Issued Share Capital	For	For	Pass	100.0	0.0	0.0
5c Authorize Reissuance of Repurchased Shares	For	Against	Pass	76.5	23.5	0.0
6 Adopt New Articles of Association	For	For	Pass	98.2	1.8	0.0
7a Add Chinese Name to Existing Company Name	For	For	Pass	100.0	0.0	0.0
7b Amend Articles of Association	For	For	Pass	99.8	0.2	0.0

Meeting Agenda & Proposals

Items 1-2. Approve Scheme of Arrangement and Husky Share Exchange

FOR

VOTE RECOMMENDATION

Vote FOR the proposed transactions is warranted given the following:

- Though the share exchange ratio may not have been the highest valuation Hutchison shareholders might have hoped for, it is sufficiently robust.
- The transactions would enable shareholders to hold shares directly in property and non-property businesses, and would remove the layered ownership structure.
- The transactions could help reduce the holding company discount at CKH, and Hutchison shareholders would share such upside benefit through their stake in CKH and CK Property.
- The market has reacted positively to the announcement of the transactions, with Hutchison shares up more than 20 percent since announcement.

Discussion

The boards of Hutchison Whampoa Ltd. (Hutchison) and CK Hutchison Holdings Ltd. (CKH) seek their respective companies' shareholder approval for the proposed reorganization in which Hutchison would be acquired by CKH and the combined group's property and non-property businesses would be separated into two listed companies. The transactions required to complete the reorganization are as follows:

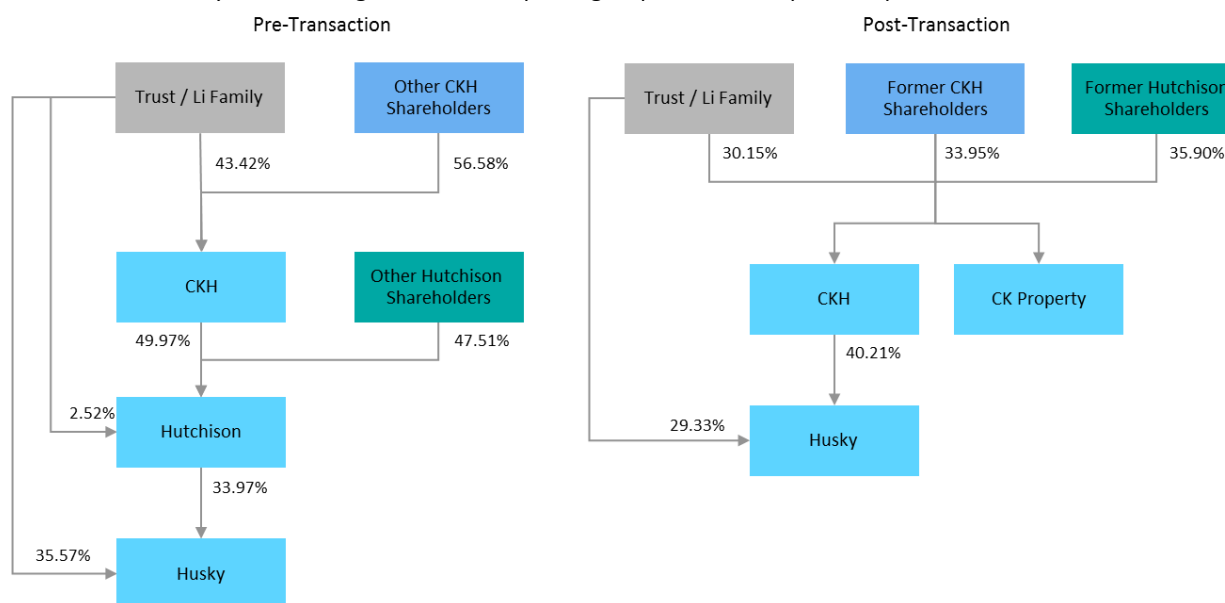
Merger Transactions

- *Hutchison Proposal*
At the Record Time set by Hutchinson, CKH will exchange with then-current Hutchinson shareholders 0.684 new CKH share for every Hutchison share. All outstanding Hutchison shares will then be cancelled and extinguished as of the Hutchison Record Time.
- *Husky Share Exchange*
The company will acquire 6.24 percent of outstanding shares of Husky Energy Inc. (Husky) by issuing 1.376 new CKH shares per Husky share. The Husky shares will be acquired from discretionary trusts and unit trusts (the Trust) of which Li Ka-Shing, the executive chairman of both CKH and Hutchison is the settlor and his son Li Tzar Victor, the managing director of CKH and executive deputy chairman of both CKH and Hutchison, is the discretionary beneficiary.

Spin-off Transaction

- Subsequent to the completion of the merger proposals, the property business of CKH will be transferred to Cheung Kong Property Holdings Ltd. (CK Property), and CKH will distribute to its shareholders one CK Property per CKH share held.

Below is a summary of the changes in ownership and group structures upon completion of these transactions:



COMPANIES

Hutchison is principally engaged in six core businesses – ports and related services, property and hotels, retail, infrastructure, energy, and telecommunications – in over 50 countries across the world.

CKH was incorporated in the Cayman Islands on Dec. 11, 2014. Upon completion of the reorganization of Cheung Kong on March 18, 2015, CKH became the holding company of Cheung Kong and its subsidiaries and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Ltd. (HKEx). Its principal businesses include property development and investment, hotel and serviced suite operation, property and project management, investment in infrastructure businesses and securities, and the ownership and leasing of movable assets.

CK Property, which is currently wholly-owned by CKH, is intended to become the holding company of the property businesses of CKH and Hutchison (Combined Property Business). The Combined Property Businesses include development properties, investment properties, hotels and serviced suites, and interest in listed REITs.

Husky is listed on the Toronto Stock Exchange and principally invests in oil and gas opportunities with upstream and downstream business segments. Currently, Husky is 34 percent is owned by Hutchison and 35.6 percent by the Trust.

TRANSACTION SUMMARY

Parties to the Transaction	Target	Acquirer	Seller
<u>Hutchison Proposal</u>			
Company:	Hutchison	CKH	Hutchison shareholders
Ticker:	13:HK	1:HK	N/A
<u>Husky Share Exchange</u>			
Company:	Husky	Hutchison	Trust
Ticker:	HSE:CN	13:HK	N/A

Conflicts of Interest

Related-party Transaction:	Yes
Affiliation:	The Trust is the largest shareholder of CKH, which in turn holds

	49.97 percent interest in Hutchison. The Trust is beneficially owned by the family of Li Ka-Shing. There are multiple directors who serve on the boards of both Hutchison and CKH, including Li Ka-Shing, Victor Li, Canning Fok Kin Ning (group managing director of Hutchison), and Frank John Sixt (group finance director of Hutchison).
Independent Financial Advisor:	CKH: Anglo Chinese Corporate Finance Ltd. (ACCF) Hutchison: Somerley Capital Ltd. (Somerley)
Fairness Opinion:	Both ACCF and Somerley believe that the terms of the Hutchison Proposal and the Husky Share Exchange are fair and reasonable.
Independent Valuers:	DTZ Debenham Tie Leung Ltd., Gerald Eve LLP, Smiths Gore and CBRE Inc. (in relation to the valuation of the CK Property's property interests)
Independent Director Opinion:	The terms of the Hutchison Proposal and the Husky Share Exchange are fair and reasonable.
Level of Support from Independent Directors:	Unanimous

Valuation (Hutchison Proposal)

Transaction Terms:	0.684 new CKH share per Hutchison share
Type of Consideration:	Stock
Premium over Day Prior:	1 percent
Premium/(Discount) to Price 2-months Prior:	(8.5) percent

Valuation (Husky Share Exchange)

Transaction Terms:	1.376 new CKH shares per Husky share, or a total of 84.4 million new CKH shares
Type of Consideration:	Stock
Premium over Day Prior:	4.3 percent*
Premium over Price 2-months Prior:	0.04 percent*

*Based on the exchange rate of CAD 1 to HK\$6.5782 which is equivalent to the exchange rate on Jan. 6, 2015.

Process

Announcement Date:	Jan. 9, 2015 after the close of trading
Audit Date:	Dec. 31, 2014
Valuation Reference Date:	Feb. 28, 2015
Board Level of Support:	Unanimous
Sales Process:	Not disclosed

Market Context	Hutchison	CKH	Husky	Hang Seng Index
Price Change at Announcement (1-day) ¹ :	12.5%	14.7%	(3.1)%	0.4%
Price Change vs. Unaffected Price	23.1%	27.2%	0.1%	4.1%

on Jan. 9, 2015²:

Since Announcement ³ :	9.4%	10.9%	3.3%	3.6%
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Source: Bloomberg

¹ the closing price on the announcement date compared to the unaffected price (usually the closing price one day before the announcement).

² the most recent closing price compared to the unaffected price.

³ the most recent closing price compared to the closing price on the announcement date.

Deal Structure

Shareholder Vote Requirement: **CKH:** Simple majority affirmative votes of independent shareholders.
Hutchison: Super majority (3/4) affirmative votes of independent shareholders; however, votes cast against the proposal cannot exceed 10 percent of the total voting rights attached to all shares entitled to vote on the proposal.

Vote Restrictions: **CKH:** The Trust, Li Ka-Shing, Victor Li and their associates are required to abstain from voting on the resolution to approve the Hutchison Proposal.
Hutchison: CKH and its concert parties, holding an aggregate of 49.97 percent of Hutchison's current issued share capital, are required to abstain from voting on the resolution to approve the Hutchison Proposal and the Husky Share Exchange.

Dissenters' Rights: Not disclosed

% Ownership and Listing Status: Upon completion:

- Hutchison will be wholly-owned by CKH and the public listing for Hutchison will be withdrawn;
- CK Property will hold the Combined Property Business and CK Property will be separately listed on the HKEx;
- CKH will hold the businesses of CKH and Hutchison, other than the Combined Property Business, including a 40.2 percent interest in Husky.

Post-Transaction Board Structure: Following the completion of the transactions, the boards of directors of CKH and CK Property will be comprised of the following executive directors, with no overlap in the independent non-executive directors of the two companies:

CKH	CK Property
Li Ka-Shing (<i>Chairman</i>)	Li Ka-Shing (<i>Chairman</i>)
Victor Li Tzar Kuoi (<i>Deputy chairman and group co-managing director</i>)	Victor Li Tzar Kuoi (<i>Managing director and deputy chairman</i>)
Canning Fok Kin Ning (<i>Group co-managing director</i>)	Kam Hing Lam
Susan Chow Woo Mo Fong	Edmond Ip Tak Chuen
Frank John Sixt	Davy Chung Sun Keung
Edmond Ip Tak Chuen	Justin Chiu Kwok Hung
Kam Hing Lam	Chow Wai Kam
Dominic Lai Kai Ming	Ezra Pau Yee Wan
	Grace Woo Chia Ching

Mandatory General Offer by the Trust: The issuance of new CKH shares as consideration for the Husky Share Exchange shall not result in the Trust incurring a mandatory general offer obligation under the Takeovers Code.

SPIN-OFF PROPOSAL

Pursuant to the Spin-off Proposal, the following transactions will be implemented:

- Immediately following the completion of the Hutchison Proposal and Husky Share Exchange, the Combined Property Businesses will be reorganized to form part of CK Property; and

- Immediately following the completion of above, CK Property will issue new CK Property shares to CKH shareholders in the ratio of one CK Property share for every one CKH share held as of the expected record time; immediately thereafter, the two CK Property shares then held by CKH will be cancelled.

CK Property has made an application to the HKEx for the listing by way of introduction of the CK Property shares on the Main Board of the HKEx.

STRATEGIC RATIONALE

The board of Hutchison proposes the Merger Proposal and the Spin-off Proposal in view of the following reasons:

- To unlock shareholder value by eliminating the holding company discount on CKH' stake in Hutchison;
- To provide greater transparency and business coherence, allowing investors to better differentiate and value the businesses of the CKH Group and the CK Property Group;
- To remove the layered holding structure between CKH and Hutchison, allowing shareholders to directly invest in two separate listed vehicles alongside the Trust;
- To enable all eligible shareholders to hold shares in CKH and CK Property directly, enhancing investment flexibility and efficiency; and
- To enhance size and scale.

Analysis

VALUATION ANALYSIS

CKH is offering 0.684 shares for each Hutchison share. After the January announcement, both companies declared final dividends: HK\$1.755 per share at Hutchison and HK\$3.016 per share at CKH, announced Feb. 26, with ex-dividend date of March 17 and payment date of April 15, 2015. The dividend differential means that the effective offer was at an exchange ratio of 0.677 at announcement, though it is back to 0.684 now since the ex-dividend date was March 17.

Exchange Ratio

The company used a five day average to determine the exchange ratio, structuring the transaction as a merger of equals. However, a longer look-back period of 180 days to 5 years prior to announcement would have yielded an exchange ratio in a range of 0.708 to 0.764, or 3.5 percent to 11.7 percent higher than the agreed exchange ratio. It should be noted, however, that the reason for this discount to the historical exchange ratio has to do with TSR outperformance of Hutchison over the last five years prior to announcement of the offer, though the trading exchange ratio began to decline in 2014. Over this full period, CKH performance mostly followed that of holding and property companies, even if the Hutchison stake this company owns represents approximately 60 percent of its value; Hutchison, on the other hand, was outperforming all peers and CKH itself. The market was apparently not giving credit for CKH's stake in Hutchison.

Merger Premium

The exchange ratio implies a slight one-day discount of 2.5 percent to the trading ratio of the two stocks

	<u>Hutchison</u>	<u>CKH</u>
1 Undisturbed prices	87.3	124.9 Thomson One
2 Dividend adjustment	1.8	3.0 Shareholder circular
3 Adjusted prices	85.5	121.9 =1-2
4 Market implied ex. Ratio		0.702 Hutch/CKHadj. price
5 Exchange ratio Offered		0.684 Shareholder circular
6 Premium		-2.5% =(5/4)-1

Source: Shareholder circular, Thomson One.

Market Reaction

Upon announcement of the transaction on January 9, the shares of Hutchison and CKH increased by approximately 12.5 percent and 14.7 percent respectively. From January 9 to date, the relative reaction has been even more positive: Hutchison is up by 25.2 percent and CKH by 29.8 percent, versus 2.1 percent and 0.2 percent for holding company peers and property company peers, respectively. Hutchison's stock was trading above the exchange ratio offered since announcement, though it is currently trading below it.

Sum of the Parts (SOTP)

The fairness opinion for the transaction estimates a fair value of HK\$144 per share for Hutchison and HK\$241 for CKH, if the stake the former holds in the latter is valued at the Hutchison SOTP estimate. This estimate arrives at a fair exchange ratio of 0.598, to which the offer represents a premium of 14.5 percent. If one corrects the property values with the typical discount real estate companies trade at in Hong Kong (approximately 40 percent), one arrives at a fair exchange ratio of 0.643, to which the offer represents a premium of 6.4 percent.

Analyst Estimates

The independent financial advisers to the transaction have provided the average SOTP estimate from before the announcement of the transaction from analysts, which implies a fair exchange ratio of 0.706. Based on target prices, the ratio is marginally above the offer, at 0.710.

PROCESS

Conflicts of Interest and Safeguards for Minority Shareholders

Li Ka-Shing and his associates is the controlling shareholder of CKH, which in turn is the controlling shareholder of Hutchison, and the largest shareholder of Husky. Li also chairs both CKH and Hutchison, and his son Victor Li is the managing director of CKH and executive deputy chairman of both CKH and Hutchison. This may create an economic incentive to take advantage of Li's power and influence over the companies for his own benefit at minority shareholders' cost. To safeguard against such influence, CKH and Hutchison have appointed an independent financial advisor, retained multiple independent valuation experts to assess the market value of the property assets, and had the transactions reviewed by a committee of independent directors, none of whom independent directors hold concurrent board positions in CKH and Hutchison. Nonetheless, shareholders should exercise caution when reviewing transactions where material conflicts of interest such as these exist.

Note on the Relative Independence of the Independent Directors

Neither CKH and Hutchison has a formal nomination committee, and most of their independent directors have served on the respective company's board for more than nine years. Further, many of independent directors serve concurrently on multiple companies' boards within the CKH/Hutchison group of companies, and several executive and non-independent non-executive directors hold board positions at both CKH and Hutchison. These issues raise concerns regarding the independence of the companies' independent directors and whether the board could evaluate the transaction objectively without undue influence for the benefit of minority shareholders.

STRATEGIC RATIONALE

Clarity of structure and transparency for investors appear to be the key factors driving the strategic benefits of the proposed reorganization. The transactions will remove the pyramidal ownership structure, separate non-property businesses and property businesses, and allow shareholders to invest directly in non-property and property businesses. Such change in ownership and corporate structures would enhance transparency into the companies' business activities as well as provide clarity into strategies of and corporate opportunities committed to CKH and CK Property.

Under the current structure, Li Ka-Shing and his associates hold a controlling stake in Hutchison through their stake in CKH, and both CKH and Hutchison are large and complex conglomerates engaged in some overlapping businesses. This pyramidal ownership structure creates a disparity between Li's ownership rights and economic interest. Coupled with the lack of clarity over business activities, investors may have difficulties assessing whether

certain corporate opportunity will be afforded to CKH or to Hutchison. Removing the layered ownership structure would allow for a better alignment of interests between the controlling shareholder and minority shareholders.

Further, clearly delineating the business activities into two separate listed entities without a layered ownership structure could help reduce any holding company discount. CKH shares are believed to be undervalued, as indicated by a comparison of the indicative valuation of HK\$241 per share from the SOTP analysis versus the HK\$124.9 trading price per share immediately before the announcement. According to the independent financial advisers, the market value of CKH's 49.97 percent interest in Hutchison is worth HK\$188 billion, or 62.9 percent of CKH's market capitalization based on closing price of the shares for the five trading days up to Jan. 7, 2015. CKH shares at that time traded 24.2 percent below the net asset value; assuming that the discount applied evenly to all its assets, this implies a discount of HK\$45.43 billion to the value of CKH's Hutchison stake. The proposed reorganization could help reduce such discount, and both current CKH and Hutchison shareholders would benefit from the upside through their stakes in CKH and CK Property.

One note of caution is warranted, however, by the dearth of stated benefits for all shareholders which would explain the need to acquire the additional 6.24 percent stake in Husky. Hutchison management explained in a research engagement with ISS that the Husky Share Exchange would allow CKH (after the Hutchison transaction) to become the largest shareholder of Husky, becoming its de facto controlling shareholder. This would also signal CKH's commitment to the energy business, and that the acquisition is value accretive to shareholders. It appears, however, that the acquisition of Husky stake will also enable Li Ka-Shing and his associates to maintain more than 30 percent ownership of CKH and CK Property.

ISS CONCLUSION

There are material conflicts of interest inherent in this reorganization, and the governance structures of CKH and Hutchison are not sufficiently robust to ensure that the transactions were reviewed as independently and objectively as minority shareholders might hope. Given these risks, the voting decision for minority shareholders must be firmly grounded in the valuation and strategic benefits.

From a valuation perspective, there are so many moving parts that need to be considered that one risks missing the forest for the trees. The key decision factors appear to be that:

- Relative share price evolution for the last few years would call for a 7-10 percent higher exchange ratio, to which one could add a few percentage points to account for the perceived value accretion from the O2 UK transaction (which caused Hutchison shares to increase by 3.2 percent upon announcement).
- Analyst target prices call for a 3-4 percent increase in the exchange ratio, to which one could also add some incremental compensation for the O2 transaction.
- The sum of the parts analysis, as modified to account for the discount to estimated NAV for real estate, indicates that the ratio of the proposed transaction represents close to a 6 percent premium to a fair ratio, though the O2 transaction would eat up part of this advantage.
- The evolution of CKH ex-Hutchison in the past three years shows 27 percentage points of underperformance (or 55 point over the last five years), as the market was not fully giving credit for the evolution of property assets or the Hutchison stake at CKH. This suggests that the currency being offered may itself be underpriced, allowing for current Hutchison shareholders to capture additional upside through the merger. This is a point seems to have been reinforced by the market reaction.

Though all these pieces of information are not necessarily directionally consistent, it could reasonably be argued that the exchange ratio should be slightly higher, in range (approximately) of 0.700-0.750.

However, with a firm offer on the table and Hong Kong takeover rules applicable, if shareholders vote down the present transaction the companies would need to wait for one year to present an alternative one. An 8 percent potential upside in one year, to illustrate the point, would not compensate for the risk involved – there are a number of moving parts – especially considering the fact that Hutchison shareholders are sitting on 23 percentage points of outperformance since the transaction was first announced. In sum, this may not have been the maximum valuation Hutchinson shareholders could have hoped for, but it does appear sufficiently robust – particularly in light of the downside risk of non-approval – that it may warrant support.

Strategically, the reorganization appears to offer a number of benefits to CKH and Hutchison shareholders. It would enable investors to hold shares directly in distinct, focused property and non-property businesses, and give them the ability to adjust their exposure between the two as according to their investment theses. Removing the layered ownership structure, moreover, would better align the interests of the controlling shareholder with those of minority shareholders. Clearly delineating the businesses would likely lead to more accurate, and thus fuller, market valuations of each business, and greater transparency into the strategies of each. Lastly – but in part through the combined effect of these other benefits – the transactions could help reduce or eliminate the holding company discount.

Though the exchange ratio may not represent the highest theoretical value for Hutchison shares, and there are reasons to remain wary about the governance, the exchange ratio appears sufficiently robust to merit serious consideration, and the strategic benefits appear greater than the risk-adjusted potential upside of any sweetened offer should the transaction be voted down. It is harder to see the compelling strategic reasons why shareholders should approve the Husky Share Exchange – other than the critical point that the Hutchinson transaction is conditioned on approval of the Husky transaction, and the share exchange ratio, which is based on historical share prices without any premium, does not appear unreasonable. Given these considerations, a vote FOR these resolutions is warranted.

Item 3. Elect Cheng Hoi Chuen, Vincent as Director

AGAINST

VOTE RECOMMENDATION

A vote AGAINST the election of Vincent Cheng Hoi Chuen is warranted given that he serves on a total of more than six public company boards.

Discussion

The board seeks shareholder approval for the election of Cheng Hoi Chuen, Vincent as a director. For full details of the directors and their position on the board, please see the Board Profile section.

COMPLIANCE WITH LOCAL BEST PRACTICE

<i>Does the board independence comply with the independence requirements of the SEHK Listing Rules?</i>	Yes Rule 3.10 of the SEHK Main Board Listing Rules requires that at least three independent directors and Rule 3.10A of the SEHK Main Board Listing Rules requires that at least one-third independent directors be appointed to boards of listed companies.
<i>Are the Chairman and CEO separate?</i>	Yes
<i>Is there a senior non-executive director who is considered independent?</i>	No
<i>Does the composition of the Audit Committee comply with the requirements of SEHK Listing Rules?</i>	Yes Rule 3.21 of the SEHK Listing Rules requires: "Every listed issuer must establish an audit committee comprising non-executive directors only. The audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise as required under rule 3.10(2). The majority of the audit committee members must be independent non-executive directors of the listed issuer. The audit committee must be chaired by an independent non-executive director."

<i>Does the composition of the Remuneration Committee comply with the requirements of the SEHK Listing Rules?</i>	Yes Rule 3.25 of the SEHK Listing Rules requires: "An Issuer must establish a remuneration committee chaired by an independent non-executive director and comprising a majority of independent non-executive directors."
<i>Does the composition of the Nomination Committee comply with the requirements of the Hong Kong Corporate Governance Code?</i>	No. The company has not established a nomination committee. As disclosed in the annual report: "At present, the Company does not consider it necessary to have a nomination committee as the full Board is responsible for reviewing the structure, size and composition of the Board from time to time to ensure that it has a balanced composition of skills and experience appropriate for the requirements of the businesses of the Company, and the Board as a whole is also responsible for reviewing the succession plan for the Directors, in particular the Chairman and the Managing Director." The Code (A.5.1) requires that: "Issuers must establish a nomination committee which is chaired by the chairman of the board or an independent non-executive director and comprises a majority of independent non-executive directors."

Analysis

NOMINEE SERVES ON MORE THAN SIX BOARDS – CHENG HOI CHUEN, VINCENT

In addition to his directorship at the company, Cheng Hoi Chuen, Vincent currently serves as a director of six public companies. It is not common in this market for a director to serve on more than six public boards.

Investors may be concerned whether directors will be able to fulfill their fiduciary responsibilities when they are serving on a large number of boards, as in this case. While the demands of each board will vary, and the capacity of each person will vary, holding the equivalent of more than six directorships with publicly listed companies may make it challenging for a director to devote adequate time to the affairs of each company.

INDEPENDENT DIRECTORS WITH TENURE EXCEEDING NINE YEARS

Each of Michael Kadoorie, William Shurniak, and Wong Chung Hin has served on the board for more than nine years. Long tenure on a board can lead to a sense of identification with the company and the interests of its management team which can damage a director's independence, even in the absence of a formal transactional or professional relationship between the director and the company. The Hong Kong Code on Corporate Governance has recently been amended to provide that where a director designated as independent has served on the board for more than nine years, further appointment of such director should be subject to a separate resolution to be approved by shareholders and the company should provide reasons for the director's independence and reelection – in effect, creating a rebuttable presumption that independence of a director will be affected by long tenure.

Considering the justification provided by the company and absent any other concern regarding their independence, Michael Kadoorie and Wong Chung Hin are considered independent under ISS' classification of directors.

The board has not provided a compelling justification why William Shurniak could still be considered independent despite his long tenure, but has nonetheless confirmed his independence. Absent any other concern regarding his independence, he is considered independent under ISS' classification of directors.

However, the situation at the company is concerning as it does not have a formal nomination committee, and a majority of the independent directors have served on the board for more than nine years. Some shareholders who

have a strong view on this topic may wish to engage with the company directly on the question of why these long-tenured directors are still considered independent.

LACK OF A FORMAL NOMINATION COMMITTEE

The company has not established a nomination committee, meaning that the functions of this committee fall under the responsibility of the entire board. Companies should have a formal nomination committee with clearly delineated areas of responsibility. The establishment of a majority independent nomination committee ensures that shareholders are able to hold members involved in the nomination process accountable for their actions. A formally separate committee may also increase transparency and communication with shareholders.

The company's explanation is not compelling, as one of the purposes of a nominating committee is to prevent executive directors from stacking the board with cronies or controlling the succession process. Further, while more than one-third of the directors are designated as independent, a majority of the independent directors have served on the board for nine years or longer, and many of the independent directors serve on the boards of multiple companies within the Hutchison/CKH group, suggesting ties that go beyond the board seats themselves.

The company is effectively controlled by the Li family through its stake in CKH. No listed companies within the Hutchison/CKH group have formal nomination committees. In effect, a lack of nomination committees gives the Li family significant influence over the board composition of all listed companies within the Hutchison/CKH group.

Given the Li family's stake, some investors may be comfortable with this arrangement. However, in our view the presence of a major shareholder makes it even more important that there be safeguards to protect the interests of minority shareholders. One such safeguard is the establishment of a nominating committee, a majority of whose members are independent, to ensure that a certain degree of genuine board independence is maintained at all times.

In situations such where the board had not established a formal nomination committee and is not majority independent, ISS recommends a vote against any executive nominee on the board to ensure the independence and objectivity of the nomination process. However, we may determine that a recommendation against the election of the CEO/managing director, executive chairman, or company founder is not warranted if their removal could be expected to have a material negative impact on shareholder value.

In this case, there is no executive director up for election.

Equity Ownership Profile

Type	Votes per share	Issued
Common Equity	1.00	4,263,370,780

Ownership - Common Equity	Number of Shares	% of Class
CK Hutchison Holdings Ltd.	2,130,202,773	49.97
LI KA SHING	94,534,000	2.22
Norges Bank Investment Management	38,325,251	0.90
BlackRock Fund Advisors	37,649,010	0.88
Invesco Advisers, Inc.	30,121,000	0.71
The Vanguard Group, Inc.	28,748,025	0.67
Schroder Investment Management (Hong Kong) Ltd.	26,200,671	0.62
Capital Research & Management Co. (World Investors)	23,802,000	0.56
Comgest SA	22,929,000	0.54
T. Rowe Price Associates, Inc.	22,546,400	0.53
First State Investment Management (UK) Ltd.	21,674,000	0.51
State Street Global Advisors Asia Ltd.	16,676,647	0.39
T. Rowe Price Hong Kong Ltd.	16,554,000	0.39
KADOORIE MICHAEL D FAMILY	15,984,095	0.38
Invesco Asset Management Ltd.	14,930,149	0.35
CAPFI DELEN Asset Management SA	13,978,000	0.33
Schroder Investment Management (Singapore) Ltd.	11,950,337	0.28
Hang Seng Investment Management Ltd.	11,619,660	0.27
LI FAMILY	11,496,000	0.27
JPMorgan Investment Management, Inc.	10,849,522	0.25

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Additional Information

Meeting Location	Grand Ballroom, 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong
Meeting Time	14:30
Security IDs	Y38024108(CINS)

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