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Supplemental Announcement Continuing Connected Transactions – Master Services Agreements

Guoco Group Limited would like to provide further information in relation to the continuing connected transactions under the Master Services Agreements.

Reference is made to the announcement of Guoco Group Limited (the “Company”) dated 7 July 2017 (the “Announcement”) in relation to the continuing connected transactions under Master Services Agreements. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The Company would like to provide further information in relation to the continuing connected transactions contemplated under the Master Services Agreements.

1. Monthly Fee

Under the Master Services Agreements, the fixed Monthly Fee, as agreed from time to time between the Service Recipient and the relevant Service Provider, is payable. The Monthly Fee, proposed by the Service Providers for consideration, has been agreed at the commencement of each of the Master Services Agreements and, so far, has not been adjusted during the tenure of these agreements. Currently it is agreed at approximately HK\$628,218 per month.

As the Services under the Master Services Agreements are provided on a continuing basis, the Monthly Fee is similar to a fixed monthly retainer fee normally charged by external professional consultants. The directors of Guoco, including the independent non-executive directors but excluding Mr Kwek Leng Hai and Mr Kwek Leng San who abstained voluntarily from voting in respect of the board resolutions relating to the Master Services Agreements (the “Directors”) are of the view that the Services in the integrated manner in which they are delivered are not commonly available and therefore there is no direct market comparable. However, in considering and putting into perspective the fairness and reasonableness of the Monthly Fee, the Directors referenced the hypothetical situation of engaging professionals of various disciplines to provide similar Services under the Master Services Agreements. The aggregate of the retainer fees at general market level of such professionals for servicing more than 250 subsidiaries of the Guoco Group covered under the Master Services Agreements would be expected to be in excess of the Monthly Fee. In this regard, the Directors are of the view that the Monthly Fee is on normal commercial terms, and is fair and reasonable.

Where any adjustment to the Monthly Fee is proposed by the Service Providers, the Directors would adopt similar consideration as aforesaid to determine the fairness and reasonableness of the proposed adjustment.

2. Annual Fee

An Annual Fee equal to 3% of the annual profit before tax of such Service Recipient as shown in its audited profit and loss account for the relevant financial year, subject to appropriate adjustment (including the deduction of dividends received from its downstream subsidiaries which are also Service Recipients under the Master Services Agreements) to avoid double counting of profit, if any, is also payable under the Master Services Agreements.

The Service Providers are actively involved in the formulation of strategies, planning and directions of the Service Recipients' business and operations and also overview of the policies and budgets of the Service Recipients from time to time. Similar services provided on such an integrated manner would not be commonly available from third parties, and their service quality and standard would not be of comparable level to that of the Service Providers given the Service Providers' depth of understanding and involvement in the business affairs of the Guoco Group. To a certain extent, the Service Providers are regarded as being in a "strategic partnership" with the Service Recipients to achieve performance such that the risks and benefits derived by the Service Recipients are shared with the Service Providers. Based on research data comparing the annual services fees payable by some listed companies in Hong Kong under their respective services agreements against their applicable consolidated profit before tax, the Annual Fee at a rate of 3% of the profit before tax under the Master Services Agreements is within the market benchmark. Given the aforesaid, the Directors are of the view that the Annual Fee is based on normal commercial terms, and is fair and reasonable.

By Order of the Board
Stella Lo Sze Man
Company Secretary

Hong Kong, 18 July 2017

As at the date of this announcement, the board of directors of Guoco comprises Mr. Kwek Leng Hai as Executive Chairman; Mr. Tang Hong Cheong as President & CEO; Mr. Kwek Leng San and Mr. Tan Lim Heng as Non-executive Directors and Mr. Volker Stoeckel, Mr. Roderic N. A. Sage and Mr. David Michael Norman as Independent Non-executive Directors.