

## CORPORATE GOVERNANCE REPORT

*“Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholders’ value, whilst taking into account the interest of other stakeholders.”*

The board of directors of the Company (the “Board”) has adopted a Code of Corporate Governance Practices (the “CGP Code”) based on the principles set out in Appendix 14 (the “HKEx Code”) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The CGP Code is reviewed from time to time and updated as appropriate to align with the revised provisions of the HKEx Code. Continuous efforts are made to review and enhance the Group’s risk management and internal control system and procedures in light of changes in regulations and developments in best practices. To us, maintaining high standards of corporate governance practices is not just complying with the letter of the provisions but also the intent of the regulations to enhance corporate performance and accountability.

The Board is pleased to report compliance with the applicable HKEx Code throughout the financial year ended 30 June 2017, except where otherwise stated.

### A. DIRECTORS

#### 1. The Board

The Board assumes responsibilities for directing the Company and enhancing its value for shareholders in accordance with good corporate governance principles and has established relevant board committees to assist in discharging these responsibilities.

The main role and responsibilities of the Board broadly cover, among others, reviewing and approving corporate mission and broad strategies; overseeing and evaluating the conduct of the Group’s businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage these risks; reviewing and approving key matters such as financial results, investments and divestments and other material transactions; and reviewing the Company’s policies and practices on corporate governance as well as legal and regulatory compliance.

The Board recognises its corporate governance duties as an ongoing commitment and has monitored and reviewed the relevant corporate governance standard and practices of the Company during the year and delegated relevant aspects of the function to the board committees and management where appropriate.

The Board has delegated the day-to-day management and operation of the Group’s businesses to the management of the Company and its subsidiaries.

## A. DIRECTORS (cont'd)

### 1. The Board (cont'd)

The Board during the year and up to the date of this report comprises the following members:

*Chairman/Executive Chairman*

Quek Leng Chan <sup>Note 1</sup>

Kwek Leng Hai <sup>Note 2</sup>

*President & CEO*

Tang Hong Cheong <sup>Note 3</sup>

*Non-executive Directors*

Kwek Leng San

Tan Lim Heng

*Independent Non-executive Directors*

Volker Stoeckel

Roderic N. A. Sage

David Michael Norman

Note:

1. Mr. Quek Leng Chan relinquished his position as a director and the Chairman of the Board with effect from 1 September 2016.
2. Mr. Kwek Leng Hai was re-designated from President & CEO to the Executive Chairman of the Board with effect from 1 September 2016.
3. Mr. Tang Hong Cheong was appointed as an executive director and the President & CEO of the Company with effect from 1 September 2016.

Pursuant to the Bye-Laws of the Company and the CGP Code, not less than one-third of the directors shall retire from office by rotation at each annual general meeting. The director to retire every year shall be those who have been longest in office since their last election but as between persons who became Directors on the same day shall (unless they otherwise agree between themselves) be determined by lot.

Despite non-executive directors are not appointed for a specific term as stipulated by the HKEx Code, they are subject to retirement by rotation and re-election at the annual general meetings of the Company. As such, the Company considers that such provisions are sufficient to meet the intent of the relevant provisions of the HKEx Code.

The Company received confirmation of independence from each of the independent non-executive directors (the "INED") for the year pursuant to Rule 3.13 of the Listing Rules. The Company considers that Messrs Volker Stoeckel, Roderic N. A. Sage and David Michael Norman continue to be independent up to and as at the date of this report.

The family relationships among the board members, if any, are disclosed under "Biographical Details of Directors and Senior Management" on pages 6 and 7 of this annual report.

## A. DIRECTORS (cont'd)

### 2. Chairman and Chief Executive Officer ("CEO")

The roles of the Chairman and the CEO of the Company are segregated and are not held by the same person. Currently, Mr. Kwek Leng Hai is the Executive Chairman and Mr. Tang Hong Cheong is the President and CEO of the Company.

The Executive Chairman leads the Board and ensures its smooth and effective functioning. The CEO is responsible for the vision and strategic direction of the Group, implementing the policies and decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, setting the benchmark and targets for operating companies, overseeing the day-to-day operations and tracking compliance and business progress.

### 3. Board Meetings and Access of Information

The Board meets regularly. During the year, five board meetings were held and details of directors' attendance are as follows:

	Meetings attended/held
<i>Chairman/Executive Chairman</i>	
Quek Leng Chan <sup>Note 1</sup>	1/1
Kwek Leng Hai <sup>Note 2</sup>	5/5
<i>President &amp; CEO</i>	
Tang Hong Cheong <sup>Note 3</sup>	4/4
<i>Non-executive Directors</i>	
Kwek Leng San	5/5
Tan Lim Heng	5/5
<i>Independent Non-executive Directors</i>	
Volker Stoeckel	4/5
Roderic N. A. Sage	4/5
David Michael Norman	5/5

Note:

- Mr. Quek Leng Chan relinquished his position as a director and the Chairman of the Board with effect from 1 September 2016.
- Mr. Kwek Leng Hai was re-designated from President & CEO to the Executive Chairman of the Board with effect from 1 September 2016.
- Mr. Tang Hong Cheong was appointed as an executive director and the President & CEO of the Company with effect from 1 September 2016.

## A. DIRECTORS (cont'd)

### 3. Board Meetings and Access of Information (cont'd)

Board papers are circulated prior to board meetings on a timely manner, which include, among others, financial and corporate information, significant operational and corporate issues and business performance of the Group as well as management proposals which require the approval of the Board.

Where appropriate, decisions are also taken by way of circulated resolutions. The Board also receives information between meetings about developments in the Company's business.

All directors have access to the advice and services of the Company Secretary and internal auditor, and upon reasonable request, independent professional advice in appropriate circumstances at the Company's expense, if any.

### 4. Directors' Securities Transactions

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct governing directors' securities transactions.

All directors of the Company during the year, following specific enquiry by the Company, have confirmed that they have complied with the required standard set out in the Model Code throughout the year.

### 5. Directors' Continuous Training and Development Programme

Pursuant to the HKEx Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

The Company has put in place training and development programmes for directors which includes (1) induction/familiarisation programme for newly appointed directors; and (2) on-going training and professional development programme for directors.

During the year ended 30 June 2017, all directors of the Company received regular briefings and updates on the Group's business, operations, risk management and corporate governance matters. Materials on new or changes to salient laws and regulations, environmental, social and governance matters applicable to the Group were provided to the directors. They also attended regulatory update sessions and seminars on relevant topics. All directors are requested to provide the Company with their respective training record pursuant to the CGP Code.

## B. DIRECTORS' REMUNERATION

### 1. Board Remuneration Committee ("BRC")

The principal role of the BRC is to make recommendations to the Board on the policy and structure for the remuneration of directors and senior management, as well as to determine, with delegated responsibility from the Board as described under Code B.1.2(c)(i) of the HKEx Code, the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payment which may include any compensation payable for loss or termination of their office or appointment. Detailed terms of reference of the BRC is accessible on the Company's website.

Membership and attendance

For the year ended 30 June 2017, the members of the BRC and their attendance at the meetings are set out below:

	Meetings attended/held
Volker Stoeckel – <i>Chairman</i>	2/2
Quek Leng Chan <sup>Note 1</sup>	1/1
Kwek Leng Hai <sup>Note 2</sup>	1/1
Roderic N. A. Sage	2/2

Note:

1. Mr. Quek Leng Chan has ceased to be a member of the BRC of the Company with effect from 1 September 2016.
2. Mr. Kwek Leng Hai has been appointed as a member of the BRC of the Company with effect from 1 September 2016.

Work done during the year

- reviewed and recommended directors' fees for the non-executive directors for the financial year 2015/16;
- approved the discretionary bonuses for the directors and senior management for the financial year 2015/16;
- reviewed the remuneration packages of the executive directors and senior management;
- reviewed and approved the remuneration package for the Executive Chairman and the executive director, President & CEO of the Company;
- reviewed the terms of reference of the BRC and remuneration policy for directors and senior management; and
- deliberated the statement relating to the BRC for inclusion in the Corporate Governance Report.

## B. DIRECTORS' REMUNERATION (cont'd)

### 2. Level and Make-up of Remuneration

The Group's remuneration scheme for executive directors and senior management is linked to performance, service seniority, experience and scope of responsibility and is based on the provisions in the Group's Human Resources Manual, which are reviewed from time to time to align with market/industry practices.

The level of remuneration of non-executive directors reflects the level of responsibilities undertaken by them.

The fees of directors, including non-executive directors, are recommended and endorsed by the Board for shareholders' approval at the Company's annual general meetings.

Details of the remuneration of the directors for the year ended 30 June 2017 are provided in note 9 to the Financial Statements in this annual report.

## C. DIRECTORS' NOMINATION

### 1. Board Nomination Committee ("BNC")

The principal role of the BNC is to make recommendations to the Board on the structure, size, composition and diversity of the Board, to review the independence of independent non-executive directors, the suitability of directors who will stand for re-election and directors' continuous training and development programme and to formulate a policy concerning board diversity, monitor the implementation of such policy and to review the same, as appropriate. Detailed terms of reference of the BNC is accessible on the Company's website.

Membership and attendance

For the year ended 30 June 2017, the members of the BNC and their attendance at the meetings are set out below:

	Meetings attended/held
Quek Leng Chan – <i>Chairman</i> <sup>Note 1</sup>	1/1
Kwek Leng Hai – <i>Chairman</i> <sup>Note 2</sup>	N/A
Volker Stoeckel	1/1
Roderic N. A. Sage	1/1

Note:

1. Mr. Quek Leng Chan has ceased to be the Chairman of the BNC with effect from 1 September 2016.
2. Mr. Kwek Leng Hai has been appointed as the Chairman of the BNC with effect from 1 September 2016.

## C. DIRECTORS' NOMINATION (cont'd)

### 1. Board Nomination Committee ("BNC") (cont'd)

Work done during the year

- reviewed the suitability of 1) an existing director to be re-designated as the Executive Chairman of the Board; and 2) a candidate to be appointed as an executive director, President & CEO of the Company;
- reviewed the structure, size, composition and diversity and gender of the Board (including the mix of skills, knowledge, experience, competences of directors, and the balance between executive, non-executive and independent non-executive directors) annually and upon proposed change to the board composition;
- reviewed and assessed the independence of independent non-executive directors of the Company;
- reviewed the profile of and participation in the Company's affairs by directors who stood for re-election at the annual general meeting;
- reviewed the continuous training and development programmes undertaken by directors to ensure that an appropriate programme is in place;
- reviewed the terms of reference of the BNC and the Board Diversity Policy; and
- deliberated the inclusion of statement related to BNC in the Corporate Governance Report.

### 2. Board Diversity Policy

The Company has adopted the Board Diversity Policy pursuant to which the Company recognizes and embraces the benefits of having a diverse Board to enhance the quality of its performance. The Company maintains that selection of candidates for Board appointments will be based on a range of diversity perspectives and the ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The BNC reviews annually the Board Diversity Policy to ensure its effectiveness and application.

## D. ACCOUNTABILITY AND AUDIT

### 1. Board Audit and Risk Management Committee (“BARMC”)

The BARMC oversees the financial reporting process and assesses the adequacy and effectiveness of the Company’s financial as well as risk management and internal control systems. The BARMC meets with the Company’s external and internal auditors, and reviews their audit plans, the internal audit programme, and the results of their examinations as well as their evaluations of the systems of risk management and internal control. The BARMC reviews the Group’s and the Company’s financial statements and the auditors’ report thereon and submits its views to the Board. Detailed terms of reference of the BARMC are accessible on the Company’s website.

#### Membership and attendance

For the year ended 30 June 2017, the members of BARMC and their attendance at the meetings are set out below:

	Meetings attended/held
Roderic N. A. Sage – <i>Chairman</i>	4/4
Volker Stoeckel	4/4
David Michael Norman	4/4

The Chief Executive, Chief Financial Officer/Group Financial Controller and Head of Internal Audit are normal attendees of the BARMC meetings. Where appropriate, representatives of the external auditors are invited to attend the BARMC meetings to present significant audit and accounting matters which they noted in the course of their audit.

#### Work done during the year

- reviewed the nature and scope of external audit and approved the external audit fee and the engagement terms;
- reviewed the interim financial report, the interim results announcement, the annual accounts and the final results announcement;
- reviewed the financial reporting system and related internal control procedures, including the adequacy of resources, qualifications, experience of staff of the accounting and financial reporting functions, and their training programmes and budget;



## D. ACCOUNTABILITY AND AUDIT (cont'd)

### 1. Board Audit and Risk Management Committee ("BARMC") (cont'd)

Work done during the year (cont'd)

- reviewed the Group's accounting policies and practices;
- reviewed and approved the annual internal audit plan;
- reviewed major findings of internal audit assignments and the progress of implementation of remedial measures on control issues identified;
- reviewed the Group's risk registers of strategic business units and system of internal control and assessed the adequacy and effectiveness of the action plans and control systems for managing these risks;
- reviewed the effectiveness of the processes for financial reporting and listing rule compliance of the Company;
- reviewed connected transactions entered into by the Group or subsisting during the year;
- reviewed the terms of reference of the BARMC; and
- deliberated the statement relating to the BARMC for inclusion in the Corporate Governance Report.

### 2. Financial Reporting

The Listing Rules require listed companies to prepare annual financial statements which shall provide a true and fair view of the state of affairs of the companies and of the results of their operations and cash flows.

The Board is responsible for ensuring the maintenance of proper accounting records of the Group. It has also acknowledged its responsibility for preparing the financial statements.

The Board approves the financial statements after taking into account the BARMC's comments on specific accounting matters.

The Board is satisfied that appropriate accounting policies have been used in preparing the financial statements, consistently applied and complied with the relevant accounting standards.

A statement of the auditor about their reporting responsibilities is included in the Independent Auditor's Report on page 76 of this annual report.

## D. ACCOUNTABILITY AND AUDIT (cont'd)

### 3. Risk Management and Internal Controls

For business strategy formulation and for improving business performance, a set of Enterprise Risk Management framework ("ERM framework"), as set forth in the company policy, has been established and implemented by all strategic business units ("SBUs") within the Group. This ERM framework consists of iterative processes for each SBU to constantly identify and assess risks in terms of their potential impact and probability of occurrence, as well as to establish and implement relevant procedures and internal controls for risk mitigation. Risk profile reports are submitted to the Company's senior management and the BARMC for review on a quarterly basis, to ensure that residual risks after taking into account risk mitigating measures fall within the risk appetite and tolerance set by the Board.

The BARMC oversees the effectiveness of the processes for financial reporting and listing rule compliance. It also reviews the adequacy of resources, qualifications and experience of staff of the accounting, internal audit and financial reporting function and their training program.

To assist the BARMC in its oversight and monitoring activities, the Company established an internal audit function which, on a risk-based approach, conducts periodic audits of major controls including financial, operational, compliance and the risk management function of the Company and its subsidiaries. Any material control issues identified, together with the remedial action plans, are reported to the BARMC at the meetings. The internal audit team shall follow up and ensure that any material control issues are promptly and properly rectified.

The effectiveness of the Company's and its subsidiaries' risk management and internal control systems is reviewed by the BARMC on a quarterly basis, based on the risk profile reports submitted and reported audit findings. The BARMC will submit the report to the Board for deliberation. The extent and frequency of communications of the monitoring results to the BARMC and the Board are reviewed and considered sufficient.

The Board acknowledges responsibility for the risk management and internal control systems and reviewing their effectiveness, but would like to explain that such internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

#### Handling and Dissemination of Inside Information

The Company has established and implemented relevant procedures and internal controls for the handling and dissemination of inside information, including restricting employee access to inside information on a need-to-know basis and ensuring that those who need to know understand the obligation of keeping the information confidential. All inside information is disclosed to the public pursuant to the requirements under the Securities and Futures Ordinance and the Listing Rules and kept strictly confidential before disclosure.

### 4. Auditor's Remuneration

The fees charged by the Group's external auditor for the year in respect of annual audit services amounted to HK\$15,041,000 and those in respect of non-audit services (comprising tax advisory and review, transaction support and consultancy services) amounted to HK\$4,137,000.

## E. INVESTOR RELATIONS

### 1. Communication with Investors

The Company encourages two-way communication with both its institutional and private investors. Extensive information about the Group's activities is provided in the interim and annual reports which are distributed to shareholders.

In order to promote effective communication, the Company maintains a website at [www.guoco.com](http://www.guoco.com) to provide:

- latest news, announcements, financials including interim and annual reports;
- other corporate communication materials, e.g. notices of meetings, circulars, proxy forms, etc.,
- corporate calendar for important shareholders' dates for current financial year;
- constitutional documents of the Company;
- corporate governance information including composition and terms of reference of various board committees, corporate governance report and shareholders' rights;
- online registration of email alert service for receiving the Company's latest corporate communications; and
- other information relating to the Group and its businesses.

Regular dialogues are maintained with institutional investors. Enquiries from individuals on matters relating to the business of the Group are welcome and are dealt with in an informative and timely manner. Shareholders can make any query in respect of the Group or to make a request for the Group's information to the extent such information is publicly available. The designated contact details are as follows:

By Post:	Guoco Group Limited 50th Floor, The Center, 99 Queen's Road Central, Hong Kong
By Fax:	(852) 2285 3233
By Email:	<a href="mailto:comsec@guoco.com">comsec@guoco.com</a>

Shareholders' questions about their shareholdings should be directed to Computershare Hong Kong Investor Services Limited, the Company's share registrar, at Shops 1712-16, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong.

## E. INVESTOR RELATIONS (cont'd)

### 2. General Meetings

The annual general meeting of the Company provides an opportunity for the shareholders to seek clarification and to obtain a better understanding of the Group's performance. Shareholders are encouraged to meet and communicate with the Board at the annual general meeting and to vote on all resolutions.

During the year, an annual general meeting was held and details of directors' attendance at the meeting are as follows:

	Meetings attended/held
<i>Chairman/Executive Chairman</i>	
Quek Leng Chan <sup>Note 1</sup>	N/A
Kwek Leng Hai <sup>Note 2</sup>	1/1
<i>President &amp; CEO</i>	
Tang Hong Cheong <sup>Note 3</sup>	1/1
<i>Non-executive Directors</i>	
Kwek Leng San	1/1
Tan Lim Heng	1/1
<i>Independent Non-executive Directors</i>	
Volker Stoeckel	0/1
Roderic N. A. Sage	1/1
David Michael Norman	1/1

Note:

1. Mr. Quek Leng Chan relinquished his position as a director and the Chairman of the Board with effect from 1 September 2016.
2. Mr. Kwek Leng Hai was re-designated from President & CEO to the Executive Chairman of the Board with effect from 1 September 2016.
3. Mr. Tang Hong Cheong was appointed as an executive director and the President & CEO of the Company with effect from 1 September 2016.

## E. INVESTOR RELATIONS (cont'd)

### 3. Rights and Procedures for Shareholders to Convene General Meetings

Pursuant to Bermuda Companies Act 1981, the directors of the Company shall, on the requisition of shareholders holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company carrying the right of voting at general meetings of the Company, forthwith proceed duly to convene a special general meeting of the Company. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form each signed by one or more requisitionists.

Pursuant to the Company's Bye-Law 103, shareholder(s) may send a notice in writing of intention to propose a person for election as a director. Such notice in writing shall be lodged at the Company's principal office at 50th Floor, The Center, 99 Queen's Road Central, Hong Kong, or at the Branch Share Registrars' office at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong provided that the minimum length of the period for lodgment of the notices referred to herein shall be at least seven days which shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

### 4. Constitutional Documents

At the annual general meeting held on 21 November 2016, a special resolution was passed by the shareholders of the Company to approve amendments to the Bye-Laws of the Company. An updated version of the Memorandum of Association and Bye-Laws of the Company is available on the websites of the Company and The Stock Exchange of Hong Kong Limited.

29 August 2017