

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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited. 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 2016 (the “Year”), 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
Quek Leng Chan

Executive Director
Kwek Leng Hai (*President, CEO*)

Non-executive Directors
Kwek Leng San
Tan Lim Heng

Independent Non-executive Directors
Volker Stoeckel
Roderic N. A. Sage
David Michael Norman

Every director is subject to retirement by rotation at least once every three years pursuant to the Bye-Laws of the Company and the CGP Code.

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 "Board of Directors and Senior Management" on pages 6 and 7 of this annual report.

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. During the Year and up to the date of this report, Mr. Quek Leng Chan was the Chairman and Mr. Kwek Leng Hai was the President and CEO of the Company.

The 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.

A. DIRECTORS (cont'd)

3. Board Meetings and Access of Information

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

	Meetings attended/held
<i>Chairman</i>	
Quek Leng Chan	4/4
<i>Executive Director</i>	
Kwek Leng Hai	4/4
<i>Non-executive Directors</i>	
Kwek Leng San	4/4
Tan Lim Heng	4/4
<i>Independent Non-executive Directors</i>	
Volker Stoeckel	4/4
Roderic N. A. Sage	4/4
David Michael Norman	3/4

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.

A. DIRECTORS (cont'd)

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 a training and development programme 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, all Directors have participated in relevant training sessions and briefed Company's business updates and salient regulatory matters. All directors are requested to provide the Company with their respective training record pursuant to the CGP Code.

For the year ended 30 June 2016, the Directors' training records are set out below:

Directors	Briefings on Company's Businesses	Reading Regulatory Updates	Attending Relevant Training Sessions
Quek Leng Chan	√	√	√
Kwek Leng Hai	√	√	√
Kwek Leng San	√	√	√
Tan Lim Heng	√	√	√
Volker Stoeckel	√	√	√
Roderic N.A. Sage	√	√	√
David Michael Norman	√	√	√

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.

B. DIRECTORS' REMUNERATION (cont'd)

1. Board Remuneration Committee ("BRC") (cont'd)

Membership and attendance

For the year ended 30 June 2016, 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	2/2
Roderic N. A. Sage*	2/2

* Independent Non-executive Directors

Work done during the Year

- reviewed its terms of reference and remuneration policy for directors and senior management;
- reviewed and recommended directors' fees for the non-executive directors for the financial year 2014/2015;
- approved the discretionary bonuses for the directors and senior management;
- reviewed the remuneration packages of the executive director and senior management;
- reviewed and approved the remuneration package of a senior management for his intra-group transfer; and
- deliberated the statement relating to the BRC for inclusion in the Corporate Governance Report

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 remuneration policy and Human Resources Manual which are reviewed from time to time to align with industry practices and market benchmarks.

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

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

Details of the emoluments of the directors for the year ended 30 June 2016 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 2016, the members of the BNC and their attendance at the meetings are set out below:

	Meetings attended/held
Quek Leng Chan – <i>Chairman</i>	1/1
Volker Stoeckel*	1/1
Roderic N. A. Sage*	1/1

* Independent Non-executive Directors

Work done during the Year

- reviewed the structure, size, composition and diversity of the Board (including the mix of skills, knowledge, experience and competences of directors, and the balance between executive, non-executive and independent non-executive directors) annually;
- reviewed and assessed the independence of independent non-executive directors of the Company and confirmed that all independent non-executive directors are considered independent;
- reviewed the profile of and participation in the Company's affairs by directors who will stand for re-election at the annual general meeting and confirmed that all those directors are suitable to stand for re-election;
- reviewed the continuous training and development programmes undertaken by directors and confirmed that an appropriate programme is in place;
- reviewed its terms of reference and the Board Diversity Policy; and
- deliberated the statement relating to the BNC for inclusion 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 the Board Diversity Policy to ensure its effectiveness and monitors the implementation of the Board Diversity Policy annually.

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 system of controls. 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 2016, 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

* Independent Non-executive Directors

The Chief Executive, Chief Financial Officer 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;
- 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;
- 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 connected transactions entered into by the Group or subsisting during the Year;
- considered and recommended the renaming of the Committee to Board Audit and Risk Management Committee and the amendments to its terms of reference to align the amendments to the HKEX Code regarding risk management and internal control; and
- deliberated the statement relating to the BARMC for inclusion in the Corporate Governance.

D. ACCOUNTABILITY AND AUDIT (cont'd)

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 cashflows.

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 73 of this annual report.

3. Risk Management and Internal Controls

The Board, recognising its responsibilities to ensure sound internal controls, has put in place a risk management framework for the Group to:

- identify significant risks faced by the Group in the operating environment as well as evaluate the impact of such risks identified;
- develop necessary measures for managing these risks; and
- monitor and review the effectiveness and adequacy of such measures.

The Board has entrusted the BARMC with the responsibility of overseeing the implementation of the Group's risk management framework. In discharging this responsibility, the BARMC, assisted by the Group Internal Audit Department and the audit committees of other listed subsidiary groups:

- ensures that new and emerging risks relevant to the Group are promptly identified by management;
- assesses the adequacy of action plans and control systems developed to manage these risks; and
- monitors the implementation of the action plans and the effectiveness and adequacy of the control systems.

These on-going processes are in place, and reviewed periodically by the BARMC.

The controls built into the risk management framework are intended to manage and not expected to eliminate all risks of failure to achieve business objectives. These controls provide reasonable, but not absolute, assurance against material misstatement of management and financial information or against financial losses and fraud.

The Board, through the BARMC, has conducted an annual review on the Group's risk registers of strategic business units and system of internal control and considers that the Group's risk management and internal control system are adequate and effective. The Board is satisfied that the Group has complied with the provisions on internal controls as set out in the applicable HKEx Code.

D. ACCOUNTABILITY AND AUDIT (cont'd)

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\$15,930,000 and those in respect of non-audit services (comprising tax advisory and review, transaction support and consultancy services) amounted to HK\$3,686,000.

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.

Regular dialogues are maintained with institutional investors. Enquiries from individuals on matters relating to their shareholdings and the business of the Group are welcome and are dealt with in an informative and timely manner. The enquiries can be directed to the Group Company Secretary via email at the designated mail box – comsec@guoco.com or directly by questions at general meetings of the Company.

In order to promote effective communication, the Company maintains a website at 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 corporate governance 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.

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:	comsec@guoco.com

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, two general meetings were held and details of directors' attendance at the meetings are as follows:

	Meetings attended/held
<i>Chairman</i>	
Quek Leng Chan	2/2
<i>Executive Director</i>	
Kwek Leng Hai	2/2
<i>Non-executive Directors</i>	
Kwek Leng San	2/2
Tan Lim Heng	2/2
<i>Independent Non-executive Directors</i>	
Volker Stoeckel	2/2
Roderic N. A. Sage	2/2
David Michael Norman	2/2

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.

30 August 2016