

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



(Incorporated in Bermuda with limited liability)
(Stock Code: 53)

Continuing Connected Transactions – Master Services Agreements

As the 2017 Services Agreements (as defined below) for the provision of management services by the relevant service providers of the Hong Leong Group to the Guoco Group expired on 30 June 2020, Guoco entered into the Master Services Agreements (as detailed below) on 3 July 2020 with GGMC and HLMLC for the provision of the Services for three financial years from 1 July 2020 to 30 June 2023.

GGMC and HLMLC are wholly-owned subsidiaries of HLMLC, the ultimate holding company and a substantial shareholder of Guoco and thus they are associates of a connected person of Guoco under Chapter 14A of the Listing Rules. The transactions contemplated under the Master Services Agreements constitute continuing connected transactions for Guoco under the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the Annual Cap (as defined below) exceed 0.1% but less than 5%, the Master Services Agreements and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and other disclosure requirements under Chapter 14A of the Listing Rules but are exempted from the independent shareholders' approval requirement.

BACKGROUND

References are made to the announcement and the supplemental announcement of Guoco issued on 7 July 2017 and 18 July 2017 respectively regarding the master services agreements entered into by Guoco with the relevant service providers of the Hong Leong Group for the provision of management services to the Guoco Group (the "2017 Services Agreements"), which constituted continuing connected transactions for Guoco under the Listing Rules. The 2017 Services Agreements expired on 30 June 2020.

THE MASTER SERVICES AGREEMENTS

Two master agreements for services (collectively the "Master Services Agreements") were entered into by the following parties on 3 July 2020 for three financial years from 1 July 2020 to 30 June 2023:

1. Guoco with GGMC for the provision of Services by GGMC to the Selected Subsidiaries; and
2. Guoco with HLMLC for the provision of Services by HLMLC to the Malaysian Subsidiaries.

During the subsistence of the Master Services Agreements, the Services to be provided thereunder include, among other things:

- (a) Provide strategic management, support and guidance on the Service Recipient's businesses and operations including the formulation of strategies, planning and directions, policies and budgets to drive continuous business growth;
- (b) Oversee the investment management disciplines and financial management disciplines for investments/assets of the Service Recipient;
- (c) Oversee the planning of the Service Recipient's finances and fundings, treasury and risk management, and coordinate, foster and manage banking relationships;
- (d) Oversee key managerial recruitment and retention, performance measurement and management performance incentives, and talent management activities to assure alignment with shareholders' interest and prime value creation;
- (e) Guidance with respect to operating practices and procedures, accounting and other services;
- (f) Provide corporate advisory and legal support including (i) the review of long term and material contracts; and (ii) guidance on legal and company secretarial policies; and
- (g) Provide tax technical and advisory support; guidance on operating policies and guidelines relating to corporate tax management, global tax developments and global tax reporting requirements;

Pursuant to the Master Services Agreements, a Service Recipient or a particular group of Service Recipients may enter into a separate agreement with the Service Provider(s) based on similar terms as set out in the Master Services Agreements.

Service Fees

The fees payable under the Master Services Agreements comprise:

1. a monthly fee (the "Monthly Fee") as agreed from time to time between such Service Recipient and the relevant Service Providers and is currently agreed to be approximately HK\$605,000 per month; and
2. an annual fee (the "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 (for example, to avoid double counting of profit), if any ("the Adjusted Annual Profit Before Tax").

The Service Provider and Guoco may from time to time agree to group the Service Recipients either by geographical location, business segment or other criteria and the Annual Fee payable by each of such group(s) shall be calculated on a consolidated basis determined by aggregating the Adjusted Annual Profit Before Tax of each member of the relevant group (with deduction for losses suffered by any of them). Upon determination of the Annual Fee payable by each of such group, Guoco shall, in consultation with the Service Provider and relevant Service Recipients, allocate the Annual Fee to each of the Service Recipients within the group on a fair and reasonable basis.

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 given the corporate support work provided by the Service Providers on an on-going and recurring basis. The Disinterested 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 Disinterested 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. Where any adjustment to the Monthly Fee is proposed by the Service Provider, the Disinterested Directors would adopt similar

consideration as aforesaid to determine the fairness and reasonableness of the proposed adjustment.

The Service Providers are actively involved in the formulation of strategies, planning and directions of the Guoco Group's 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. To a certain extent, the Service Providers are regarded as being in a "strategic partnership" with the Service Recipients to achieve business and financial performance such that the risks and benefits derived by the Service Recipients are shared with the Service Providers. Based on research data comparing the total services fees payable by some listed companies in Hong Kong under their respective services agreements against their applicable consolidated profit before tax ranging from 0.6% to 9.5%, 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 Disinterested Directors are of the view that the Monthly Fee and the basis of charging the Annual Fee is fair and reasonable, on normal or better commercial terms and no less favourable than the terms from independent third parties for similar services.

ANNUAL CAP

The yearly total fees (the "Total Fees"), being the sum of the Monthly Fee, the Annual Fee and the total amounts of any fees paid or payable by the Guoco Group to any Hong Leong Group company for services of a similar nature as the Services, are subject to an annual cap of HK\$413 million (the "Annual Cap") for each of the three financial years ending 30 June 2023.

The basis of the Annual Cap is determined having regard to the highest Total Fees paid during the ten financial years ended 30 June 2019 of approximately HK\$173 million, allowing for the possibility that such Total Fees may increase in the four financial years ending 30 June 2023 at a rate of approximately 34.8% which is similar to the average absolute annual rate of change of the Total Fees paid during the ten financial years ended 30 June 2019. As the Annual Fee is calculated on the annual profit before tax which will be subject to possible fluctuation due to various factors, the Annual Fee may not be in a consistent growth trend. Having regard to this issue, it is considered appropriate to apply the Annual Cap amount to each of the relevant three financial years from 1 July 2020 to 30 June 2023.

The annual cap in respect of the 2017 Services Agreements was HK\$503 million. The total fees paid by the Guoco Group in respect of the 2017 Services Agreements for each of the financial years ended 30 June 2018 and 30 June 2019 were approximately HK\$163 million and HK\$78 million respectively.

INTERNAL CONTROL MEASURES GOVERNING THE MASTER SERVICES AGREEMENT

The Company has established internal control procedures to ensure that the continuing connected transactions contemplated under the Master Services Agreements are in accordance with the terms and conditions contained therein, and that the terms and conditions of the Master Services Agreements are on normal or better commercial terms and no less favourable than those from independent third parties for similar services and that the relevant annual cap is not exceeded:

- (a) Annual review will be conducted by the independent non-executive directors of the Company pursuant to Rule 14A.55 of the Listing Rules; and
- (b) The Company will also engage its auditors to review the continuing connected transactions conducted under the Master Services Agreements annually pursuant to Rule 14A.56 of the Listing Rules.

REASONS FOR AND BENEFITS OF THE MASTER SERVICES AGREEMENTS

The Master Services Agreements are in the interests of Guoco as they allow each Service Recipient to tap into the services infrastructure and global network of the Hong Leong Group in order to extract its management expertise so as to derive optimal strategic, financial and operational leverage and benefits in connection with the respective business of such Service Recipient. 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 commercial understanding and involvement in the business affairs of the Guoco Group.

The Directors (including the independent non-executive directors) are of the view that (i) the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Guoco Group; (ii) the terms of the Master Services Agreements (including the charging basis) are of normal or better commercial terms and no less favourable than those from independent third parties for similar services, fair and reasonable and in the interests of Guoco Group and the shareholders of Guoco as a whole; and (iii) the basis of determining the Annual Cap is fair and reasonable.

LISTING RULES IMPLICATIONS

GGMC and HLMC are wholly-owned subsidiaries of HLCCM, the ultimate holding company and a substantial shareholder of Guoco and thus they are associates of a connected person of Guoco under Chapter 14A of the Listing Rules. The transactions contemplated under the Master Services Agreements constitute continuing connected transactions for Guoco under the Listing Rules.

As the applicable percentage ratios under the Listing Rules in respect of the Annual Cap exceed 0.1% but less than 5%, the Master Services Agreements and the transactions contemplated thereunder are subject to the reporting, announcement, annual review and other disclosure requirements under Chapter 14A of the Listing Rules but are exempted from the independent shareholders' approval requirement. In the event that the Total Fees for any of the three financial years ending 30 June 2023 would exceed the Annual Cap, Guoco will comply with the relevant Listing Rules as appropriate.

Mr. Kwek Leng Hai and Mr. Kwek Leng San are directors and shareholders of HLCCM and Guoco. Mr. Kwek Leng Hai and Mr. Kwek Leng San have elected to abstain from voting voluntarily notwithstanding that they are not considered having material interest in the Master Services Agreements under Guoco's Bye-laws.

GENERAL

Guoco is an investment holding and management company with operations and investments principally located in Asia and Europe. Its subsidiaries and associated companies are primarily involved in principal investment, property development and investment, hospitality and leisure operations and financial services.

Both GGMC and HLMC are principally engaged in the provision of management services.

DEFINITIONS

“Directors”	the director(s) of Guoco
“Disinterested Directors”	Directors 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
“GGMC”	GuoLine Group Management Company Pte. Ltd., a company incorporated in Singapore, an indirect wholly-owned subsidiary of HLCM
“Guoco” or the “Company”	Guoco Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 53)
“Guoco Group”	Guoco and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region, the People’s Republic of China
“HLCM”	Hong Leong Company (Malaysia) Berhad, a company incorporated in Malaysia, the ultimate holding company and thus a substantial shareholder of Guoco
“HLMC”	HL Management Co Sdn Bhd, a company incorporated in Malaysia, a direct wholly-owned subsidiary of HLCM
“Hong Leong Group”	HLCM and its subsidiaries from time to time
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Malaysian Subsidiaries”	at any time (unless otherwise agreed) those subsidiaries of Guoco which are incorporated, resident or having principal place of business in Malaysia
“Selected Subsidiaries”	at any time (unless otherwise agreed) those subsidiaries of Guoco excluding the Malaysian Subsidiaries
“Services”	the management services as listed in the Master Services Agreements to be provided by the Service Providers to the Services Recipients as required and any other services or variation thereto as may from time to time be agreed between the parties
“Service Providers”	GGMC and HLMC or other Hong Leong Group company(ies) as may be agreed by the parties from time to time
“Service Recipients”	Guoco, the Malaysian Subsidiaries and the Selected Subsidiaries which are to receive the Services under the Master Services Agreements

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

By Order of the Board
Stella Lo Sze Man
Company Secretary

Hong Kong, 3 July 2020

As at the date of this announcement, the board of Directors comprises Mr. KWEK Leng Hai as Executive Chairman; Mr. TANG Hong Cheong as President & CEO; Mr. KWEK Leng San as Non-executive Director and Mr. Roderic N. A. SAGE, Mr. David Michael NORMAN and Mr. Lester G. HUANG, SBS, J.P. as Independent Non-executive Directors.