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中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2388)

**MAJOR TRANSACTION IN RELATION TO
THE DISPOSAL OF ALL THE ISSUED SHARES OF
NANYANG COMMERCIAL BANK, LIMITED**

Joint Financial Advisers to the Company



BOC INTERNATIONAL

BOCI Asia Limited

**Goldman
Sachs**

Goldman Sachs (Asia) L.L.C.

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DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

“ASEAN”	means the Association of Southeast Asian Nations
“Bank of China”	means Bank of China Limited, a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Stock Exchange (Stock Codes: 3988 and 4601 (Preference Shares)) and the Shanghai Stock Exchange (Stock Code: 601988)
“Banking Ordinance”	means the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended from time to time
“Bidding Process”	means the public bidding process conducted via CFAE
“Board”	means the board of directors of the Company
“BOC (BVI)”	means BOC Hong Kong (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability, the immediate holding company of the Company and an indirect wholly-owned subsidiary of Bank of China
“BOCHK”	means Bank of China (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a licensed bank in Hong Kong
“Business Day”	means a day other than a Saturday or Sunday or public holiday in Hong Kong or the PRC
“Cash Deposit”	means a cash deposit in the amount of HK\$3,400,000,000 which was paid by Cinda Financial and received on 17 September 2015 in the escrow account maintained by the CFAE
“CET1”	means Common Equity Tier 1
“CFAE”	means Beijing Financial Assets Exchange (北京金融資產交易所)
“Cinda Asset Management”	means China Cinda Asset Management Co., Ltd., a joint stock company incorporated in the PRC with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 1359)
“Cinda Financial”	means Cinda Financial Holdings Co., Limited, a company incorporated in Hong Kong with limited liability, an indirect wholly-owned subsidiary of Cinda Asset Management
“Cinda Group”	means Cinda Asset Management and its subsidiaries
“Cinda HK”	means China Cinda (HK) Holdings Company Limited, a company incorporated in Hong Kong with limited liability, a direct wholly-owned subsidiary of Cinda Asset Management
“Company”	means BOC Hong Kong (Holdings) Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 2388)
“Completion”	means completion of the Proposed Disposal in accordance with the terms and conditions of the Sale and Purchase Agreement
“Completion Date”	means the date which is ten (10) Business Days after the date on which the last of the conditions precedent set out in the Sale and Purchase Agreement to be satisfied is satisfied (such date not being later than the Long Stop Date), or such other date as may be agreed in writing amongst BOCHK, Cinda Financial and Cinda HK
“connected person”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Consideration”	means the total consideration in the amount of HK\$68,000,000,000 payable by Cinda Financial to BOCHK for the Proposed Disposal under the Sale and Purchase Agreement
“Directors”	means the directors of the Company
“Group”	means the Company and its subsidiaries
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong
“HKMA”	means the Hong Kong Monetary Authority
“Hong Kong”	means the Hong Kong Special Administrative Region of the PRC
“Joint Announcement”	means the joint announcement made by Bank of China and the Company on 18 December 2015 in respect of the Proposed Disposal
“Latest Practicable Date”	means 21 December 2015, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	means 30 June 2016, or such other date as BOCHK, Cinda Financial and Cinda HK may agree in writing
“NCB”	means Nanyang Commercial Bank, Limited, a company incorporated in Hong Kong with limited liability and a licensed bank in Hong Kong
“NCB China”	means Nanyang Commercial Bank (China) Limited, a company established in the PRC and a wholly-owned subsidiary of NCB, which is a licensed bank in the PRC
“Performance Bond”	means a payment on demand performance bond for the amount of HK\$6,800,000,000 issued by China Construction Bank Corporation, Hong Kong Branch in favour of BOCHK dated 15 September 2015
“pp”	means percentage points
“PRC” or “China”	means the People’s Republic of China, which for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Disposal”	means the proposed sale and purchase of all the issued shares of NCB in accordance with the terms and conditions of the Sale and Purchase Agreement
“Sale and Purchase Agreement”	means the Sale and Purchase Agreement entered into amongst BOCHK, Cinda Financial and Cinda HK on 18 December 2015 in relation to the Proposed Disposal
“SFO”	means the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended from time to time
“Shareholder(s)”	means holder(s) of the ordinary shares(s) of the Company
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules



中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2388)

Non-executive Directors

Mr. Tian Guoli (Chairman)
Mr. Chen Siqing (Vice Chairman)
Mr. Ren Deqi
Mr. Gao Yingxin
Mr. Xu Luode

Registered office:

52nd Floor
Bank of China Tower
1 Garden Road
Hong Kong

Executive Directors

Mr. Yue Yi (Vice Chairman and Chief Executive)
Mr. Li Jiuzhong

Independent Non-executive Directors

Mdm. Cheng Eva
Mr. Koh Beng Seng
Mr. Shan Weijian
Mr. Tung Savio Wai-Hok

29 December 2015

Dear Shareholders,

**MAJOR TRANSACTION IN RELATION TO
THE DISPOSAL OF ALL THE ISSUED SHARES OF
NANYANG COMMERCIAL BANK, LIMITED**

INTRODUCTION

Reference is made to (i) the joint announcements made by Bank of China and the Company on 21 May 2015 and 14 July 2015; (ii) the announcements made by the Company on 26 August 2015 and 15 September 2015; and (iii) the Joint Announcement in respect of the Proposed Disposal, conducted by way of the Bidding Process.

As disclosed in the Joint Announcement, BOCHK (as seller), a direct wholly-owned subsidiary of the Company entered into the Sale and Purchase Agreement with Cinda Financial (as buyer) and Cinda HK (as buyer's guarantor) in relation to the Proposed Disposal on 18 December 2015. Cinda Financial had been confirmed by CFAE as the only qualified bidder in the Bidding Process and was invited to enter into negotiations with BOCHK on the terms of the Proposed Disposal in accordance with the procedures, rules and requirements published on the website of CFAE on 15 July 2015.

The main purpose of this circular is to provide you with, among other things, details of the Proposed Disposal and the Sale and Purchase Agreement.

PRINCIPAL TERMS OF THE SALE AND PURCHASE AGREEMENT

Date: 18 December 2015

Parties:

Seller: BOCHK

Buyer: Cinda Financial

Buyer's guarantor: Cinda HK

Assets agreed to be disposed of

The 7,000,000 issued ordinary shares, representing all the issued shares of NCB.

LETTER FROM THE BOARD

Consideration

The total consideration for the Proposed Disposal is HK\$68,000,000,000.

The Consideration will be paid in full by Cinda Financial to BOCHK on the Completion Date in immediately available funds in Hong Kong dollars. The Consideration was the listing price of HK\$68,000,000,000 on the CFAE, which was determined with reference to various relevant factors, including (i) the net asset value of NCB and the price-to-book multiples achieved in similar transactions in the Hong Kong banking sector; (ii) scarcity value of banking licences in Hong Kong and China; (iii) future development prospects of NCB and NCB China; and (iv) potential synergies between NCB and the Cinda Group.

Conditions precedent

Completion of the Proposed Disposal is conditional upon the satisfaction of the following conditions precedent set out in the Sale and Purchase Agreement:

- (a) Cinda Financial and any holding company or other controller of it having been approved, or not having been objected to within the relevant period by the HKMA as a majority shareholder controller (as such term is defined in the Banking Ordinance) of NCB under section 70 of the Banking Ordinance and the chief executive and directors of NCB which Cinda Financial proposes to appoint on Completion having been approved by the HKMA under section 71 of the Banking Ordinance;
- (b) the Proposed Disposal having been approved by the China Banking Regulatory Commission, and Cinda Financial having completed the foreign exchange registration of outbound investment with the PRC State Administration of Foreign Exchange in relation to the Proposed Disposal;
- (c) the Proposed Disposal, which constitutes a major transaction for Cinda Asset Management under the Listing Rules, having been approved by the shareholders of Cinda Asset Management; and
- (d) if required under the Listing Rules, the Proposed Disposal having been approved by the shareholders of the Company as permitted under the Listing Rules.

If the above conditions precedent have not been satisfied on or before 11:59 p.m. on the Long Stop Date, then the Sale and Purchase Agreement shall terminate automatically with immediate effect.

As of the Latest Practicable Date, the condition precedent set out in paragraph (d) above has been satisfied by way of written shareholder's approval from BOC(BVI).

Break fee

If Completion does not take place and the Sale and Purchase Agreement is terminated pursuant to its terms due to the non-satisfaction of the conditions precedent set out in either paragraph (a) or (b) above by the Long Stop Date, Cinda Financial shall pay to BOCHK an amount equal to 1.5% of the Consideration in immediately available funds in Hong Kong dollars by no later than five Business Days after the termination of the Sale and Purchase Agreement.

Forfeiture or return of the Cash Deposit and Performance Bond

Pursuant to the Sale and Purchase Agreement:

- (a) BOCHK shall be entitled to forfeit and retain the Cash Deposit in full and any of its accrued interest and call on the full amount of the Performance Bond, upon the non-satisfaction of the condition precedent set out in paragraph (c) above by the Long Stop Date, or as a result of the failure of Cinda Financial to pay the Consideration in full at Completion;
- (b) if (A) Completion does not take place due to any reasons other than those (i) relating to non-satisfaction of any of the conditions precedent set out in paragraphs (a) to (c) above; or (ii) as a result of the failure of Cinda Financial to pay the Consideration in full at Completion; or (iii) relating to the occurrence of any circumstances under which the Cash Deposit and the Performance Bond shall be forfeited pursuant to a letter of undertaking provided by Cinda Financial in favour of BOCHK and CFAE in relation to the Proposed Disposal, or (B) Completion does not take place or is not capable of taking place as a result of any applicable law prohibiting BOCHK or Cinda Financial from completing the Proposed Disposal, BOCHK (in the case of (A)) or BOCHK and Cinda Financial (in the case of (B)) shall arrange for CFAE to return the Cash Deposit and any of its accrued interest to Cinda Financial and shall return the Performance Bond; and
- (c) if Completion takes place in accordance with the Sale and Purchase Agreement, the parties shall send a joint notice to CFAE on the Completion Date instructing the return of the Cash Deposit and any of its accrued interest to Cinda Financial.

LETTER FROM THE BOARD

Pre-Completion undertakings

Pursuant to the Sale and Purchase Agreement, BOCHK has undertaken that it shall procure that each of NCB and NCB China will, amongst other things, carry on its business in the ordinary and usual course in all material respects between the date of the Sale and Purchase Agreement and the Completion Date.

Completion

Subject to the satisfaction of the conditions precedent in the Sale and Purchase Agreement, Completion will take place on the Completion Date. Upon Completion, Cinda Financial will own all the issued shares of NCB and NCB will cease to be a subsidiary of both Bank of China and the Company.

Post-Completion arrangements

BOCHK, NCB and Cinda Financial will enter into a transitional services agreement on the Completion Date, pursuant to which BOCHK will provide certain transitional support, IT and other assistance to NCB and NCB China at service charge mutually agreed for a term of three years from the Completion Date (which may be extended to four years at the election of Cinda Financial) to facilitate the smooth transition. Representatives of BOCHK and Cinda Financial will form a preparatory committee to prepare for the implementation of the transitional services agreement.

INFORMATION ON NANYANG COMMERCIAL BANK, LIMITED

Overview

NCB is a commercial bank with its principal operations and branches in Hong Kong and China. It offers a comprehensive range of personal and commercial banking services to its retail and corporate customers respectively.

NCB has a wholly-owned subsidiary in the PRC, NCB China, which is a commercial bank operating in the PRC.

Financial Information

The audited net asset value of NCB as at 30 September 2015 was HK\$36,667,781,000.

The audited net profit before and after tax of NCB for the two financial years ended 31 December 2013 and 31 December 2014 and the nine months ended 30 September 2015 are as follows:

	For the Year Ended 31 December 2013 <i>(thousand)</i>	For the Year Ended 31 December 2014 <i>(thousand)</i>	For the Nine Months Ended 30 September 2015 <i>(thousand)</i>
Net profit before tax	HK\$3,359,210	HK\$3,366,679	HK\$2,617,867
Net profit after tax	HK\$2,828,657	HK\$2,751,499	HK\$2,188,343

INFORMATION ON THE PARTIES

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of banking and financial services in Hong Kong.

BOCHK is a locally incorporated licensed bank and is one of the three note issuing banks in Hong Kong and also the clearing bank for RMB business in Hong Kong.

Cinda Financial is an indirect wholly-owned subsidiary of Cinda Asset Management. The Cinda Group is principally engaged in distressed asset management and provision of customised financial solutions and differentiated asset management services to its clients through the synergistic operation of its diversified business platforms.

Cinda HK is a direct wholly-owned subsidiary of Cinda Asset Management and it is principally engaged in offshore asset management business and provision of offshore financial services.

As at the Latest Practicable Date, to the best knowledge, information and belief of the Board and having made all reasonable enquiries, Cinda Financial and Cinda HK and their respective ultimate beneficial owners are third parties independent of the Company or its connected persons.

FINANCIAL EFFECTS OF THE PROPOSED DISPOSAL

The Company expects to derive a gain before taxation of approximately HK\$34,027 million as a result of the Proposed Disposal, which is calculated based on the surplus of the Consideration over the net asset value of NCB as at 31 December 2014, together with the reclassification of the related cumulative translation exchange and revaluation reserve.

LETTER FROM THE BOARD

The actual gain to be recognised in the consolidated income statement of the Company could be different from the estimated gain disclosed above owing to, amongst others, (i) the taxes to be incurred on the Proposed Disposal; (ii) change in the net asset value of NCB from 31 December 2014 to the Completion Date; (iii) changes in the cumulative translation exchange and revaluation reserve from 31 December 2014 to the Completion Date; and (iv) the professional charges and expenses arising from the Proposed Disposal for engaging, amongst others, financial, legal and accounting advisors.

The Proposed Disposal is estimated to increase BOCHK's CET1 capital ratio, Tier 1 capital ratio and the total capital ratio by approximately 8.00pp, 8.02pp and 8.56pp, respectively, based on BOCHK's published consolidated financial statements for the year ended 31 December 2014. As at 31 December 2014, BOCHK's CET1 capital ratio, Tier 1 capital ratio and total capital ratio were 12.30%, 12.38% and 17.51%, respectively.

The Group intends to apply the net sale proceeds from the Proposed Disposal in the following manner: (i) to enhance the capital position of BOCHK so as to better position BOCHK for sustainable growth in Hong Kong; (ii) to expand into the ASEAN region and capitalise on the Renminbi internationalisation and the "One Belt One Road" initiative; and (iii) for other purposes as the Board and/or the board of directors of BOCHK may consider appropriate, taking into account the strategic objectives of the Group, targeted business growth of the Group, regulatory requirements, market conditions and the aim of delivering sustainable long-term value to the Shareholders.

REASONS FOR AND BENEFITS OF THE PROPOSED DISPOSAL

The Proposed Disposal represents a strategic move for the long term development of the Group. The Board believes that the Proposed Disposal will enhance the Group's financial strength while unleashing the maximum potential of NCB. The Consideration represents a premium over the net asset value of NCB. The resultant increase in the cash resources from the Proposed Disposal will enhance the capital position of the Group and will further facilitate the development of the business in the ASEAN region.

LISTING RULES IMPLICATIONS

As one or more of the relevant percentage ratios for the Company exceeds 25% but is less than 75%, the Proposed Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best knowledge, information and belief of the Board, no Shareholder is required to abstain from voting if a general meeting of the Company were to be convened for the approval of the Proposed Disposal, the Sale and Purchase Agreement and any transactions contemplated thereunder. Accordingly, the Company on 17 December 2015 obtained a written shareholder's approval from the immediate holding company of the Company, namely BOC (BVI), which directly holds 6,998,735,756 shares in the Company as at the Latest Practicable Date (representing approximately 66.20% of the total number of shares in issue of the Company), approving the Proposed Disposal and the Sale and Purchase Agreement in lieu of holding a general meeting of the Company, as permitted according to Rule 14.44 of the Listing Rules.

RECOMMENDATION

The Directors believe that the terms of the Proposed Disposal are fair and reasonable and in the interests of the Shareholders as a whole. If a general meeting were to be convened for the approval of the Proposed Disposal and the Sale and Purchase Agreement, the Board would recommend the Shareholders to vote in favour of the resolution to approve the Proposed Disposal and the Sale and Purchase Agreement at such general meeting.

GENERAL

The Board wishes to emphasize that the completion of the Proposed Disposal is subject to the satisfaction of certain remaining conditions precedent. The Company will make further announcement(s) with regard to the Proposed Disposal in compliance with the Listing Rules as and when appropriate or required.

As the completion of the Proposed Disposal is subject to the satisfaction of certain remaining conditions precedent stated in the Sale and Purchase Agreement, the Proposed Disposal may or may not proceed to Completion. Accordingly, the Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
On behalf of the Board
Tian Guoli
Chairman

APPENDIX I FINANCIAL INFORMATION OF THE GROUP

1. STATEMENT OF INDEBTEDNESS

As at the close of business on 30 November 2015, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$26,684 million, comprising of:

- (i) unsecured subordinated notes in issue with an outstanding carrying value of approximately HK\$19,482 million; and
- (ii) unsecured debt securities in issue with an outstanding carrying value of approximately HK\$7,202 million.

In addition, at the close of business on 30 November 2015, the Group had deposits from customers, deposits and balances from banks and other financial institutions, direct credit substitutes, trade-related contingencies, and other commitments arising from the normal course of its banking business.

Save as aforesaid, and apart from intra-group liabilities, as at the close of business on 30 November 2015, the Group did not have any issued and outstanding or agreed to be issued loan capital, other debt securities, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

2. WORKING CAPITAL STATEMENT

The Company is an investment holding company and its direct wholly-owned subsidiary, BOCHK is a licensed bank principally engaged in the business of providing commercial and retail banking businesses. The concept of working capital is not regarded as a key indicator of the Company's solvency as the banking business model does not involve having sufficient cash to purchase goods and converting them into revenue through sales. Accordingly, information relating to working capital is not regarded as useful for the Shareholders in assessing the Company's financial position. Instead, certain other financial indicators such as the capital adequacy ratio and the liquidity ratio are considered more relevant to measuring the financial position of a licensed bank.

Accordingly, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 14.66(10) of the Listing Rules to the effect that no statement of working capital sufficiency needs to be disclosed in this circular. The Company will however provide details of its capital adequacy ratios and liquidity position as set out below.

3. CAPITAL ADEQUACY RATIOS AND LIQUIDITY RATIOS

As an authorised institution supervised by the HKMA, BOCHK is subject to requirements by the HKMA to maintain minimum capital adequacy ratios and minimum liquidity ratios. The following ratios have been determined by reference to the financial information of the Group as at 31 December 2013, 2014 and 30 June 2015 respectively.

(A) Capital adequacy ratios

The capital adequacy ratio of a bank is calculated as a ratio of the bank's capital base to its risk-weighted assets. For the implementation of the Basel III capital requirements, Banking (Capital) Rules were amended to revise the minimum capital ratio requirements and the definition of regulatory capital. Under the revised Banking (Capital) Rules which became effective from 1 January 2013, all authorised institutions were required to maintain at all times in 2013 and 2014, a CET1 capital ratio of not less than 3.5% and 4%, respectively, a Tier 1 capital ratio of not less than 4.5% and 5.5%, respectively and in each case a total capital ratio of not less than 8%. As of 1 January 2015 all authorised institutions were required to maintain at all times a CET1 capital ratio of not less than 4.5%, a Tier 1 capital ratio of not less than 6% and a total capital ratio of not less than 8%.

The HKMA may vary any capital requirement rule applicable to a particular authorised institution.

The capital adequacy ratios of BOCHK as at 31 December 2013, 2014 and 30 June 2015 are set out below:

	As at 31 December		As at 30 June
	2013	2014	2015
	%	%	%
Total capital ratio ¹	15.80	17.51	17.26
Tier 1 capital ratio ²	10.67	12.38	12.41
CET1 capital ratio ³	10.57	12.30	12.35

APPENDIX I FINANCIAL INFORMATION OF THE GROUP

Notes:

The capital adequacy ratios are compiled in accordance with the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong) for the implementation of the “Basel III” capital accord.

The ratios are computed on the consolidated basis for regulatory purposes that comprise the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Capital) Rules.

- 1 Total capital ratio of an authorised institution is calculated with reference to its Total capital (as defined in the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong)).
- 2 Tier 1 capital ratio of an authorised institution is calculated with reference to the aggregate of its Common Equity Tier 1 capital and Additional Tier 1 capital (each as defined in the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong)). Additional Tier 1 capital of an authorised institution consists of its capital instruments, its share premium resulting from the issue of its capital instruments and capital instruments issued by its consolidated bank subsidiaries and held by third parties, and recognised as Additional Tier 1 capital pursuant to the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong).
- 3 Common Equity Tier 1 (CET1) capital ratio of an authorised institution is calculated with reference to its Common Equity Tier 1 capital (as defined in the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong)). Common Equity Tier 1 capital of an authorised institution consists of its ordinary shares, its share premium resulting from the issue of ordinary shares, certain retained earnings and other disclosed reserves and minority interests arising from the ordinary shares issued by its consolidated bank subsidiaries and held by third parties and recognised as Common Equity Tier 1 capital pursuant to the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong).

(B) Liquidity ratios

Prior to 1 January 2015, the liquidity ratio of a bank is calculated as the ratio of its liquefiable assets to its qualifying liabilities. All authorised institutions are required to maintain a liquidity ratio of not less than 25% in each calendar month, subject to the HKMA’s power to vary the minimum liquidity ratio applicable to a particular authorised institution.

Under the Banking (Liquidity) Rules (Chapter 155Q of the Laws of Hong Kong) which became effective on 1 January 2015, during the year of 2015 a category 1 institution must at all times maintain a Liquidity Coverage Ratio (as defined in the Banking (Liquidity) Rules (Chapter 155Q of the Laws of Hong Kong)) of not less than 60% rising to 100% on or after 1 January 2019.

The HKMA may vary any liquidity requirement rule applicable to a particular authorised institution.

The average liquidity ratio and average value of liquidity coverage ratio of BOCHK as at 31 December 2013, 2014 and 30 June 2015 are set out below:

	As at 31 December		As at 30
	2013	2014	June
	%	%	2015
			%
Average liquidity ratio ¹	37.93	42.17	–
Average value of liquidity coverage ratio ²			
– first quarter	–	–	101.90
– second quarter	–	–	109.89

Notes:

- 1 The average liquidity ratio prior to 1 January 2015 was calculated as of the arithmetic mean of each calendar month’s average liquidity ratio of BOCHK for the year. It is computed on solo basis (the Hong Kong offices only) and in accordance with the predecessor Fourth Schedule of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).
- 2 The average value of liquidity coverage ratio is calculated based on the arithmetic mean of the liquidity coverage ratio as at the end of each working day in the quarter and the calculation methodology and instructions set out in the HKMA return of liquidity position. It is computed on the consolidated basis which comprises the positions of BOCHK and certain subsidiaries specified by the HKMA in accordance with the Banking (Liquidity) Rules.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

2014 marked another year of success for the Group with record high results. The Group stepped up its efforts to capture strategic business opportunities and optimise its business structure, and focused on asset and liability management to achieve an encouraging set of results amid the volatile global financial markets.

Major economies experienced moderate but divergent growth in 2015. The United States recovery stayed on track with the improving labour and housing markets, while the Eurozone continued its modest recovery, supported by the accommodative monetary environment there. The PRC is now settling into a new normal, with its authorities introducing supportive measures to facilitate the economic transformation. In face of external headwinds, Hong Kong economy maintained a moderate pace of expansion on the back of stable domestic demand and solid labour market conditions. Recent turmoil in financial markets, however, heightened economic uncertainty and brought new challenge to the operating environment. The Group expects growing business opportunities following the acceleration of the internationalisation of Renminbi, the PRC government's "One Belt One Road" initiative, the in-depth development of the Pilot Free Trade Zones, and the basic liberalisation policies regarding trades and services between the PRC and Hong Kong.

Looking ahead, the Group intends to capitalise on its strong financial position and market knowledge. It will continue to strengthen its asset and liability management, introduce new service models and ride on the latest technology trends to increase its service efficiency and sales capabilities, as these will on the whole help the Group achieve its long-term strategic goal of sustainable development.

APPENDIX II GENERAL INFORMATION

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there is no omission of other matters which would make any statement herein or this circular misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, none of the Directors, or the chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

3. INTEREST OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, substantial shareholders of the Company who had interests or short positions in the shares or underlying shares of equity derivatives of the Company which were recorded in the register maintained by the Company pursuant to section 336 of the SFO, were as follows:

Name of Corporation	Number of shares	Approximate % of the total issued shares
Central Huijin Investment Ltd.	6,984,274,213	66.06%
Bank of China	6,984,274,213	66.06%
BOC Hong Kong (Group) Limited	6,984,175,056	66.06%
BOC (BVI)	6,984,175,056	66.06%

Notes:

- Following the reorganisation of Bank of China in August 2004, Central Huijin Investment Ltd. holds the controlling equity capital of Bank of China on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin Investment Ltd. is deemed to have the same interests in the Company as Bank of China.
- Bank of China holds the entire issued shares of BOC Hong Kong (Group) Limited, which in turn holds the entire issued share capital of BOC (BVI). Accordingly, Bank of China and BOC Hong Kong (Group) Limited are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO.
- Bank of China holds the entire issued shares of BOC International Holdings Limited, which in turn holds the entire issued shares of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, Bank of China is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 24,479 shares of the Company and an interest in 72,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 shares of the Company.

All the interests stated above represented long positions. Apart from the disclosure above, according to the register maintained by the Company pursuant to section 336 of the SFO, BOCI Financial Products Limited had an interest in 143,522 shares which represented short positions. Bank of China and Central Huijin Investment Ltd. are deemed to be interested in such number of shares for the purpose of the SFO. Save as disclosed above, as at the Latest Practicable Date, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, no Director has an existing or proposed service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

APPENDIX II GENERAL INFORMATION

5. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, Mr. Tian Guoli, Mr. Chen Siqing, Mr. Ren Deqi, Mr. Gao Yingxin and Mr. Xu Luode are executive directors or senior management of Bank of China.

Bank of China is a joint stock commercial bank with limited liability, established under the laws of the PRC, providing a full range of commercial banking and other financial services through its associates throughout the world. Certain of the Group's operations overlap with and/or are complementary to those of Bank of China and its associates. To the extent that Bank of China or its associates compete with the Group, the Directors believe that the Group's interests are adequately protected by good corporate governance practices and the involvement of the independent non-executive Directors.

Further, the Board's mandate also expressly provides that unless permissible under applicable laws or regulations, if a substantial shareholder or a Director has a conflict of interest in the matter to be considered by the Board, the matter shall not be dealt with by way of written resolutions, but a Board meeting attended by independent non-executive Directors who have no material interest in the matter shall be held to deliberate on the same.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware that any of them or any of their associates had interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

6. OTHER ARRANGEMENTS INVOLVING DIRECTORS

As at the Latest Practicable Date:

- (i) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was significant in relation to the business of the Group; and
- (ii) none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2014 (being the date to which the latest published audited consolidated accounts of the Group were made up):
 - (i) acquired or disposed of by; (ii) leased to; (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

7. LITIGATION

Neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Company pending or threatened against any company of the Group as at the Latest Practicable Date.

8. MATERIAL CONTRACTS

Save for the Sale and Purchase Agreement, there were no material contracts (not being contracts entered into in the ordinary course of business carried on by the Group) being entered into by any member of the Group within the two (2) years immediately preceding the date of this circular.

9. GENERAL

- (i) The registered office of the Company is located at 52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong.
- (ii) The secretary of the Company is Mr. Chan Chun Ying. Mr. Chan is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries.
- (iii) The share registrar of the Company is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iv) The English text of this circular shall prevail over the Chinese translation in the event of inconsistency.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the registered office of the Company at 52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong, from the date of this circular up to and including the date which is 14 days from the date of this circular:

- (i) the articles of association of the Company;
- (ii) the annual reports of the Company for the two financial years ended 31 December 2013 and 2014;
- (iii) the Sale and Purchase Agreement; and
- (iv) this circular.