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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)

(the “Company”, Stock Code: 2388)

CONTINUING CONNECTED TRANSACTIONS

Reference is made to the 2013 Announcement in relation to the Continuing Connected Transactions. As disclosed in the 2013 Announcement, the Group has been conducting the Continuing Connected Transactions with BOC Group since the Company’s listing in 2002. The Continuing Connected Transactions comprising the General Connected Transactions, Investment Connected Transactions and Inter-bank Connected Transactions, are carried out in the ordinary and usual course of business of the Group, and are regulated by the Services and Relationship Agreement and the specific agreements entered and to be entered into from time to time pursuant thereto by the relevant members of the Group.

The Services and Relationship Agreement will expire on 31 December 2016. The parties have renewed the Services and Relationship Agreement for a further term of three years expiring on 31 December 2019 and to amend certain terms thereof.

As of the date of this announcement, BOC is the controlling shareholder of the Company. Accordingly, BOC Group are connected persons of the Company under the Listing Rules. The Continuing Connected Transactions contemplated under the Services and Relationship Agreement, as renewed and amended, constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the New Caps for each of the General Connected Transactions are 0.1% or more but are less than 5%, the General Connected Transactions are subject to the reporting, annual review and announcement requirements under Chapter 14A but are exempt from the independent shareholders’ approval requirements of the Listing Rules.

As the applicable percentage ratios as defined under Rule 14.07 the Listing Rules in respect of the New Caps for each of the Investment Connected Transactions and the Inter-bank Connected Transactions are 5% or more, each of the Investment Connected Transactions and the Inter-bank Connected Transactions constitutes a non-exempt continuing connected transaction under Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

The Board has set up the Independent Board Committee to review the Continuing Connected Transactions and advise the Independent Shareholders in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions. The Company has appointed Investec as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Investment Connected Transactions and the Inter-bank Connected Transactions.

A circular containing, among other things, (i) details of the Investment Connected Transactions and the Inter-bank Connected Transactions and the New Caps in respect thereof; (ii) a letter from Investec to the Independent Board Committee and the Independent Shareholders containing its advice on the Investment Connected Transactions and the Inter-bank Connected Transactions; and (iii) the recommendation of the Independent Board Committee in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions, will be dispatched to the shareholders of the Company on or about 9 January 2017. A notice of the GM will be dispatched to the Shareholders separately.

BACKGROUND

Reference is made to the announcement of the Company dated 10 December 2013 in relation to the Continuing Connected Transactions with BOC Group (the “**2013 Announcement**”).

As disclosed in the 2013 Announcement, the Group has been conducting the Continuing Connected Transactions with BOC Group in the ordinary and usual course of its business since the listing of the Company in 2002. Pursuant to the Services and Relationship Agreement, the parties have agreed to enter into, and to procure their respective associates or subsidiaries (as the case may be) to enter into, transactions on an arm’s length basis, on normal commercial terms and at rates no less favourable to the Group than those available to or from independent third parties.

The Services and Relationship Agreement will expire on 31 December 2016. The parties have renewed the Services and Relationship Agreement for a further term of three years expiring on 31 December 2019 and to amend certain terms thereof. Accordingly, the Services and Relationship Agreement, along with the specific agreements entered and to be entered into pursuant thereto, will continue to govern the Continuing Connected Transactions for a further period of three years commencing 1 January 2017.

As of the date of this announcement, BOC is the controlling shareholder of the Company. Hence, BOC Group are connected persons of the Company under the Listing Rules. Accordingly, the Continuing Connected Transactions contemplated under the Services and Relationship Agreement, as renewed and amended, constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

PARTICULARS OF THE CONTINUING CONNECTED TRANSACTIONS

Details of the Continuing Connected Transactions, comprising the General Connected Transactions, the Investment Connected Transactions and the Inter-bank Connected Transactions, and the New Caps are set out below.

General Connected Transactions

1. *Information Technology Services*

The Group provides and receives various information technology services to and from BOC Group. These services include technical consultancy, specific computer systems and software development, systems maintenance, operations, support, network installation, user training and support, control and supervision of system security and safety services. The service fees have been determined following arm's length negotiations between the parties, with reference to the relevant cost incurred. The services are provided on normal commercial terms and are no less favourable to the Group than those which would be payable to or receivable from independent third party service providers or users in respect of the provision of similar services.

The table below sets out the historical revenues and payments and the New Caps (for the avoidance of doubt, the amounts paid and received by the Group are not netted for the purposes of calculating the New Caps) for the information technology services:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical revenues and payments (HK\$ million)	53.76	61.56	39.32
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (HK\$ million)	1,000	1,000	1,000

* For the eight months ended 31 August 2016 while the annual caps for each of the three years ending 31 December 2016 is HK\$1,000 million.

2. *Property Transactions*

2.1 *Leases and licences*

The Group leases various premises from and to BOC Group in Hong Kong and the Mainland of China pursuant to various leases and licences agreements at prevailing market rates at the relevant times, with reference to the properties at similar location and size. These arrangements are conducted on normal commercial terms.

2.2 *Property management and letting agency*

Sun Chung provides property management and letting services to BOCHK at Bank of China Tower, Bank of China Building, Bank of China Centre and other properties as required from time to time. In return, Sun Chung receives (i) a monthly management fee which is partially paid by the Group's tenants with the remainder paid by the Group

in respect of the office space used by the Group; (ii) a commission payment based on the total rents collected for the buildings, which includes notional rents in respect of office space used by the Group; and (iii) commission payments provided that either Sun Chung is able to find new tenants for the buildings or the existing tenants renew their leases with the Group. These arrangements are conducted on normal commercial terms and such fees and commission payments are no less favourable to the Group than those which would be payable to independent third parties service providers in respect of the provision of similar services.

The table below sets out historical revenues and payments and the New Caps (for the avoidance of doubt, the amounts paid and received by the Group are not netted for the purposes of calculating the New Caps) for all of the property transactions described above:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical revenues and payments (HK\$ million)	160.94	163.57	107.54
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (HK\$ million)	1,000	1,000	1,000

* For the eight months ended 31 August 2016 while the annual caps for each of the three years ending 31 December 2016 is HK\$1,000 million.

3. *Bank-note Delivery*

BOCHK provides bank-note delivery services to BOC Group for fees based on market rates and takes into consideration the transportation costs, relevant security services and other related costs. Such rates are no less favourable to BOCHK than those available from independent third parties.

The table below sets out the historical fees and the New Caps for the bank-note delivery services:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical fees (HK\$ million)	173.87	206.25	167.70
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (HK\$ million)	1,000	1,000	1,000

* For the eight months ended 31 August 2016 while the annual caps for each of the three years ending 31 December 2016 is HK\$1,000 million.

4. *Provision of Insurance Cover*

BOCG Insurance and BOC Life provide insurance cover to the Group including, without limitation, cash and cash transit insurance, group medical insurance, group life insurance, employee compensation insurance, public liability insurance, accidental damage to property insurance, Bankers' Blanket Bond and directors' and officers' liability insurance. These arrangements are conducted on normal commercial terms and the related premiums take into account factors such as, the extent of insurance coverage, perceived insured risks and insured amount, and are applicable to other independent third parties having regard to similar circumstances. The Group also takes into account the reviews of independent insurance consultants and quotations obtained from independent third parties.

The table below sets out the historical premiums paid by the Group and the New Caps for provision of insurance to the Group:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical premiums (<i>HK\$ million</i>)	134.03	170.55	130.77
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (<i>HK\$ million</i>)	1,000	1,000	1,000

* For the eight months ended 31 August 2016 while the annual caps for each of the three years ending 31 December 2016 is HK\$1,000 million.

5. *Card Services*

BOC acts as an agent bank for BOCCC in connection with BOCCC's merchant acquiring business in the Mainland and promotes such business for a percentage of the transaction amount. In addition, BOC and BOCCC share the profits from the dynamic currency conversion services for merchant acquiring business of international card in the Mainland. BOC and BOCCC also share the transaction-handling fees which cardholders are charged for over-the-counter cash withdrawals in the Mainland. BOC also provides training to its staff in its provincial branches throughout the Mainland in connection with BOCCC's business. The percentage of profits and/or fees allocated between the parties are determined having taken into account the costs incurred, such as human and financial resources contributed by the relevant party.

BOC also co-operates with BOCCC in the Mainland to provide back office support services to card services of BOC and the Mainland business development of BOCCC. All these arrangements and transactions are negotiated on arm's length basis between relevant parties with reference to, where applicable, the supporting services provided and related cost incurred. Such transactions are conducted on normal commercial terms.

Each of BOC Macau branch and Tai Fung Bank, a subsidiary of BOC, promotes BOCCC's cards bearing their respective names, to their customers in Macau and provides other services to BOCCC such as processing and approving applications received and collecting payments for such cards. In addition to their card issuing services, BOC Macau branch and Tai Fung Bank provide services for BOCCC's merchant acquiring business in Macau.

BOCCC provides operational, administrative and technical support services to BOC for BOC's Great Wall International Card.

In addition, BOCCC also provides middle and back office support services, including but not limited to, business and product development, information technology services, customer support services, training services, project management, business consultancy, operation consultancy and support and other related support services to BOC's overseas branches and subsidiaries in relation to their credit card, debit card and prepaid card businesses. BOCCC and BOC's overseas branches and subsidiaries also enter into strategic alliance for cooperation in development of card and related services.

BOCCC provides to BOC Life insurance agency services and merchant acquiring services while BOC Life provides to BOCCC support services in relation to BOCCC's insurance agency services. BOCCC receives commission from BOC Life in respect of the policies issued through the agency services of BOCCC. In relation to the merchant acquiring services and support services provided between them, both BOCCC and BOC Life respectively waive the service fees payable by the other. BOCCC also provides to BOCG Insurance merchant acquiring services and receives service fees from BOCG Insurance.

BOC Services Company Limited, a subsidiary of BOC, and BOCCC provide services to each other in relation to card business in the Mainland.

All the above arrangements and transactions are conducted on normal commercial terms and the relevant fee arrangements are determined after arm's length negotiation with reference to the scope of service provided and the relevant costs incurred.

The table below sets out the historical aggregate commissions and payments and the New Caps (for the avoidance of doubt, the amounts paid and received by the Group are not netted for the purposes of calculating the New Caps) for all of the card services and transactions described above:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical commissions and payments <i>(HK\$ million)</i>	90.12	194.74	170.96
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps <i>(HK\$ million)</i>	1,000	1,000	1,000

* For the eight months ended 31 August 2016 while the annual caps for each of the three years ending 31 December 2016 is HK\$1,000 million.

6. Custody Business

The Group provides and receives custody-related services to or from its own subsidiaries and BOC Group. The custody-related services provided by the Group mainly cover safekeeping, settlement, corporate action handling, asset servicing and reporting. Most of these transactions are conducted through custody accounts opened at BOCHK under BOC's own name but for third party beneficiaries (such as qualified domestic institutional investors in the Mainland). BOC Group provides custodial services to the Group, such as clearing, settlement and safekeeping of the shares transacted by the customers of the Group through the Shanghai-Hong Kong Stock Connect Program and the RMB qualified foreign institutional investors as well as the qualified foreign institutional investors programs. BOCHK receives and pays custody fees from and to its own subsidiaries and BOC Group, such fees are determined with reference to the transactions entered into with independent third parties and are based on normal commercial terms.

The table below sets out the historical custody fees and the New Caps (for the avoidance of doubt, the amounts paid and received by the Group are not netted for the purposes of calculating the New Caps) for the custody business transactions described above:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical custody fees (<i>HK\$ million</i>)	41.29	57.01	29.92
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (<i>HK\$ million</i>)	1,000	1,000	1,000

* For the eight months ended 31 August 2016 while the annual caps for each of the three years ending 31 December 2016 is HK\$1,000 million.

7. Contact Centre Services

The Group has outsourced its contact centre operations in the ordinary course of its business to a subsidiary of BOC in the Mainland. The Group pays service charges with reference to the costs incurred and services provided, after arm's length negotiation and based on normal commercial terms.

The table below sets out the historical payments and the New Caps for the contact centre services described above:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical payments (<i>HK\$ million</i>)	58.98	66.53	48.21
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (<i>HK\$ million</i>)	1,000	1,000	1,000

* For the eight months ended 31 August 2016 while the annual caps for each of the three years ending 31 December 2016 is HK\$1,000 million.

8. *Business Development Services*

BOCI Asia Limited, a subsidiary of BOC provides financial advisory services to the Group. In return, the Group pays service charges, which are determined based on the scope of services provided and expected duration of services, to BOCI Asia Limited. Such charges are based on normal commercial terms and are no less favourable to the Group than those available from independent third parties.

The Group may also appoint associates of BOC to engage in feasibility research for business development projects and to provide support to such projects. The fees incurred will be prepaid by the associates of BOC and be reimbursed by BOCHK. The associates of BOC may own the research result jointly with BOCHK as a consideration for the resources invested in the projects.

The table below sets out the historical payments and the New Caps for the business development services described above:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical payments (<i>HK\$ million</i>)	0	0	70.82
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (<i>HK\$ million</i>)	1,000	1,000	1,000

* For the eight months ended 31 August 2016. This transaction, which is newly announced, previously fell within the *de minimis* threshold and therefore no historical caps were set.

Investment Connected Transactions

9. *Securities Transactions*

BOCI Securities, a subsidiary of BOC, is recognized as one of the leading brokerage firms in Hong Kong and ranks among the leading brokerages in terms of trading volume. BOCI Securities provides securities brokerage services to the Group and its customers from time to time in the ordinary and usual course of its business and on normal commercial terms.

In consideration of the provision of securities brokerage services to the Group and its customers by BOCI Securities, the Group pays a commission based on a fixed portion of the gross commission (subject to transaction type) to BOCI Securities. The determination of such commission is based on a number of factors, including the role and duties of BOCI Securities under these transactions as well as the level of data security control and the standard of past performance of BOCI Securities.

The table below sets out the historical commissions and revenues and the New Caps for the securities transactions described above:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical commissions and revenues (HK\$ million)	245.25	350.89	119.91
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (HK\$ million)	4,500	7,000	10,000

* For the eight months ended 31 August 2016 while the annual caps for the years ending 31 December 2014, 2015 and 2016 were HK\$4,500 million, HK\$7,000 million and HK\$10,000 million, respectively.

10. Fund Distribution Transactions

As one of the leading financial services providers in Hong Kong, the Group provides fund distribution services to fund suppliers (including BOCI-Prudential Asset Management) in its ordinary course of business. The Group promotes and sells various fund products, including guaranteed fund and open-ended fund products, in its capacity as an intermediary between the fund suppliers and the fund subscribers. The Group receives a commission on the basis of a certain percentage of the subscription fee and the management fee received by such fund suppliers in relation to the funds. All fees and commissions payable by the fund suppliers (including BOCI-Prudential Asset Management) are calculated with reference to the prevailing market rates and the underlying transaction volumes based on an agreed fee schedule, subject to factors including but not limited to (i) changes to market environment; and (ii) the Group's relationship with individual fund suppliers, and such rate shall be no less favourable to the Group than those entered into with independent third parties and on normal commercial terms.

The table below sets out the historical commissions and rebates and the New Caps for the fund selling transactions:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical commissions and rebates (HK\$ million)	53.99	61.15	20.40
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (HK\$ million)	4,500	7,000	10,000

* For the eight months ended 31 August 2016 while the annual caps for the years ending 31 December 2014, 2015 and 2016 were HK\$4,500 million, HK\$7,000 million and HK\$10,000 million, respectively.

11. Insurance Agency

The Group provides to BOCG Insurance and BOC Life insurance agency services and receives commission payments in respect of the policies issued or renewed in accordance with the rates set out in the relevant commission schedule of BOCG Insurance and BOC Life, which are applicable to transactions conducted with independent third parties as well as the Group.

The table below sets out the historical commissions and the New Caps for the insurance agency services:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical commissions (<i>HK\$ million</i>)	761.25	974.10	516.25
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (<i>HK\$ million</i>)	4,500	7,000	10,000

* For the eight months ended 31 August 2016 while the annual caps for the years ending 31 December 2014, 2015 and 2016 were HK\$4,500 million, HK\$7,000 million and HK\$10,000 million, respectively.

12. Investment Products Transactions

The Group may enter into investment products transactions during the ordinary and usual course of its business with BOC Group, whereby BOC Group subscribes investment funds of which the Group acts as the fund manager and the issuer. These investment funds, mainly open-ended in nature, include equity funds, bond funds, equity and bond funds, alternative funds such as real estate funds and fund of funds, etc.

The Group would derive a management fee from both retail and institutional subscribers. The management fee for each investment product may vary depending on, among others, the size and nature of the investment fund and the management fee charged to BOC Group is no less favourable to the Group than those available from independent third parties.

For the subscription and redemption of fund units by investors, the relevant price per fund unit is published and determined by the fund administrator, being BOCI-Prudential Trustee, which is applicable to BOC Group and independent third parties investors. The rates have been set out in a memorandum prepared by BOCI-Prudential Trustee and are no less favourable to the Group than those available from independent third parties.

The table below sets out the historical value and fee income and the New Caps for Investment Products described above:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical value and fee income (<i>HK\$ million</i>)	150.00	15.00	30.00
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (<i>HK\$ million</i>)	150,000	250,000	350,000

* For the eight months ended 31 August 2016. This transaction, which is newly announced, previously fell within the de minimis threshold and therefore no historical caps were set.

13. *Asset Management and Referral Services*

The Group may enter into asset management and related customer referral services transactions during the ordinary and usual course of its business with BOC Group whereby (i) the Group, as an investment manager, is engaged by BOC Group, as the client, for the provision of asset management services for a management fee; and (ii) BOC Group makes client referrals to the Group for the provision of asset management services.

The management fee charged by the Group (subject to review and approval by an internal committee of the Company) is in line with market rates or is no less favourable to the Group than those charged to independent third parties. The management fee is determined based on a number of factors, including but not limited to, the background of the client, its creditworthiness and length of business relationship with the Group, and the amount of assets under the Group's management, etc.

For the customer referrals by BOC Group to the Group in connection with the Group's asset management services, where such client referrals materialise into a new business for the Group, the Group would share a percentage of management fee charged by it with BOC Group in return for its client referrals. The percentage share of management fee with BOC Group is no less favourable to the Group than those available from independent third parties.

The Group's asset management and customer referral services transactions with BOC Group are conducted in the ordinary and usual course of its business and on normal commercial terms and are fair and reasonable.

The table below sets out the historical revenue and payments and the New Caps for the asset management and referral service fees described above (for the avoidance of doubt, the amounts paid and received by the Group are not netted for the purpose of calculating the New Caps):

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical revenue and payments (HK\$ million)	15.59	15.80	14.89
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (HK\$ million)	4,500	7,000	10,000

* For the eight months ended 31 August 2016. This transaction, which is newly announced, previously fell within the *de minimis* threshold and therefore no historical caps were set.

Inter-bank Connected Transactions

14. Foreign Exchange Transactions

In the ordinary and usual course of its business, the Group enters into foreign exchange transactions with BOC Group. Foreign exchange transactions include spot, forward and outright transactions, and exercised currency options and such transactions are executed with reference to prevailing market rates. The Group also conducts foreign currency banknote exchange transactions with BOC on normal commercial terms. Such transactions are entered into primarily for the purpose of foreign exchange risk management and in response to customer-driven transactions. For open market transactions, the prevailing market rates will be used as reference. For other transactions such as over-the-counter transactions, reference will be made to the rates of independent third parties. Specifically, the price or rate adopted in the trading of foreign exchange and trading in currency markets and settlement business shall be determined based on the general practice and methodology of the industry, the market performance of the trade products, the publicly available market price and/or management requirements for various risks by the Group.

The table below sets out the historical trading income and the New Caps for the foreign exchange transactions described above:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical trading income (<i>HK\$ million</i>)	292.39	354.30	173.13
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (<i>HK\$ million</i>)	4,500	7,000	10,000

* For the eight months ended 31 August 2016 while the annual caps for the years ending 31 December 2014, 2015 and 2016 were HK\$4,500 million, HK\$7,000 million and HK\$10,000 million, respectively.

15. Derivatives Transactions

In the ordinary and usual course of its business, the Group enters into over-the-counter and on-exchange derivatives transactions with clients and counterparties. Such derivatives transactions mainly consist of foreign exchange and interest rate derivatives products such as interest rate swaps, cross currency interest rate swaps, foreign exchange options, bond options, credit derivatives, commodities derivatives, etc. All transactions are executed with reference to the prevailing market price. These transactions are all executed on an arm's length basis and on normal commercial terms. Such transactions are entered into for various reasons, including to allow BOC Group to hedge its exposures to an underlying asset class or for the purpose of taking a risk position in relation to that underlying asset class, or to meet the need of their customer-driven business. For open market transactions, the prevailing market rates will be used as reference. For other transactions such as over-the-counter transactions, reference will be made to the rates of independent third parties. Specifically, the price or rate adopted shall be determined based on the respective market prevailing prices, market performance of the trade products, the publicly available market price, and/or the management requirements for various risks by the Group.

The table below sets out the historical trading income/losses and the New Caps for the derivatives transactions described above:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical trading income/losses (HK\$ million)	(138.95)	(115.98)	(403.00)
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (HK\$ million)	4,500	7,000	10,000

* For the eight months ended 31 August 2016 while the annual caps for the years ending 31 December 2014, 2015 and 2016 were HK\$4,500 million, HK\$7,000 million and HK\$10,000 million, respectively.

16. Trading of Financial Assets

The Group enters into various transactions with BOC and its branches, in which BOC and its branches buy or sell secondary interests in loans from and to the Group. Trading of accounts receivables, forfaiting and other similar types of financial assets are also included in this category. These transactions are conducted on normal commercial terms with reference to prevailing market rates, and where prevailing market rates are not applicable, the terms of the transactions will be determined with reference to similar transactions entered into with independent third parties and are entered into for the purpose of risk management of assets and to maintain adequate liquidity level. The risk management unit monitors and reviews the terms of trading of financial assets to ensure the transactions are executed at prevailing market rates or are no less favourable than those available to or from independent third parties.

The table below sets out the historical value of such financial assets traded by the Group with BOC and its branches and the New Caps for such transactions:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical value (HK\$ million)	16,441.43	23,798.33	13,760.08
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (HK\$ million)	150,000	250,000	350,000

* For the eight months ended 31 August 2016 while the annual caps for the years ending 31 December 2014, 2015 and 2016 were HK\$150,000 million, HK\$230,000 million and HK\$350,000 million, respectively.

17. Inter-bank Capital Markets

The Group buys and sells debt securities from and to BOC Group in the secondary market with reference to prevailing market rates for the Group's own investment or to run its customer-driven business. The Group trades all kinds of fixed income securities with BOC Group. The Group obtains fee/price quotations from other financial institutions including BOC Group. Where prevailing market rates are not applicable, the terms of the transactions will be determined with reference to similar transactions entered into with independent third parties. The control units of the Group will review the transactions to ensure that they are executed at prevailing market rates or are no less favourable than rates available to or from independent third parties.

The table below sets out the historical value of debt and other securities traded by the Group with BOC Group and the New Caps for such transactions:

	<u>2014</u>	<u>2015</u>	<u>2016*</u>
Historical value (HK\$ million)	7,873.80	6,433.01	10,480.52
	<u>2017</u>	<u>2018</u>	<u>2019</u>
New Caps (HK\$ million)	150,000	250,000	350,000

* For the eight months ended 31 August 2016 while the annual caps for the years ending 31 December 2014, 2015 and 2016 were HK\$150,000 million, HK\$230,000 million and HK\$350,000 million, respectively.

REASONS AND BASIS FOR THE ANNUAL CAPS AND INTERNAL CONTROL PROCEDURES

General Connected Transactions

The Company intends to set the New Caps for each of the three financial years ending 31 December 2019 in respect of each of the General Connected Transactions at HK\$1,000 million.

The General Connected Transactions are in general transactions with BOC Group for mutual benefits or synergy (e.g. card services, information technology services, property transactions, bank-notes delivery, provision of insurance cover, custody business, contact centre services and business development services). Although the historical transaction amounts of the General Connected Transactions are relatively stable as compared to the Investment Connected Transactions and the Inter-bank Connected Transactions, the transaction amounts of the General Connected Transactions are subject to a number of uncertainties and may vary in the forthcoming three years. Such uncertainties include any possible increases in the inflation rate, the business environment of the banking industry, property markets and insurance market etc. The New Caps are set at a standard amount of HK\$1,000 million which have been determined with reference to the expected growth of transactions with BOC Group. With further strengthening of the Group's relationship with BOC Group, the Group expects the amounts of the General Connected Transactions will be increased as compared to the historical amounts. Given the New Caps are estimated to be less than 5% of all applicable percentage ratios as defined in the Listing Rules, it is beneficial to set the annual caps at a standard amount of HK\$1,000 million so as to allow more room for the Group's planned expansion into the Mainland market and ASEAN region. Given the continued growth of the

Mainland economy and the Group's strategy on long-term development of RMB banking business in Hong Kong, greater transaction volumes and amounts are expected between the Group and BOC Group (e.g. card services and bank-note delivery services). In addition, as previously announced by the Company, the Company together with BOC have been reviewing their overall business strategies for their banking businesses in Hong Kong and the ASEAN region and examining the strategic value and viability of undertaking a restructuring exercise in relation to their banking businesses in such region. In this connection, as part of such restructuring exercise of the Group in the ASEAN region, BOCHK entered into two acquisition agreements on 30 June 2016 in relation to the acquisition of the entire issued share capital of Bank of China (Malaysia) Berhad and Bank of China (Thai) Public Company Limited. The Company believes that such acquisitions together with any potential acquisitions in the region will provide the Group with immediate access to those local markets which would further facilitate the development of the Group's business by expanding its presence in the ASEAN region. With the fast-growing and substantial development potential of the ASEAN markets, the Company believes that more opportunities will be presented by strengthening the economic integration between the Mainland of China, Hong Kong and ASEAN countries. As such, the Company expects that the coordination with BOC Group will increase to create more synergies. Therefore, it is reasonable to set a buffer for the New Caps by taking into account the further strengthening of the Group's business relationship with BOC Group. The directors of the Company (including the independent non-executive directors) are of the view that the New Caps in respect of the General Connected Transactions are fair and reasonable, and in the interests of the Company and its shareholders as a whole.

Investment Connected Transactions and the Inter-bank Connected Transactions

The Investment Connected Transactions generally involve activities which are regulated by various regulatory bodies in Hong Kong, such as the Hong Kong Monetary Authority, the Securities and Futures Commission and the Office of the Commissioner of Insurance. The Investment Connected Transactions are market driven and unpredictable in nature. The securities transactions, fund distribution transactions, asset management and referral services are subject to the sentiment of the investment market whereas the Inter-bank Connected Transactions are based on customers' decision on their wealth management portfolio (e.g. stock, trust fund and foreign currency, etc.), both of which are not within the Group's control. The insurance agency transactions relate primarily to the insurance market and its growth trend and the volume and amounts of such transactions are also subject to external factors outside the Group's control. Accordingly, a standard cap amount of HK\$4,500 million is proposed for each of the Investment Connected Transactions (except for investment products transactions) for the year ending 31 December 2017. Such annual cap is based on 5% of the revenue of the Group (being the benchmark figure adopted internally by the Company with reference to the Company's experience in similar transactions and which the Company considers reasonable given the volatility of the capital markets) of approximately HK\$57,949 million for the year ended 31 December 2015 after taking into account the average growth rate of the revenue of the Group for the five years ended 31 December 2015, of approximately 9.21% and also an annual growth rate of approximately 50%. For each of the two years ending 31 December 2019, an annual growth rate of approximately 50% is also applied on the annual cap for the year ending 31 December 2017 to set the respective annual caps for each of the Investment Connected Transactions. Such annual growth rate, which is considered to be difficult for the Group to estimate, has been determined after taking into account the market-driven nature of the Investment Connected Transactions. In addition, the acquisitions in the fast-growing and substantial development potential of the ASEAN region by the Group provides large business opportunities and the frequency of the coordination between the Group and BOC Group are expected to be increased in order to produce synergy effect. Since the transaction amounts of the Investment Connected Transactions may vary significantly due to the unexpected fluctuations of the financial markets and economic conditions, the directors of the Company (including the

independent non-executive directors) consider setting standard cap amounts for the Investment Connected Transactions for each of the three years ending 31 December 2019 is fair and reasonable and in the interests of the Company and its shareholders as a whole.

Investment products transactions involve subscription of investment funds of which the Group acts as the fund manager and the issuer, the types of investment funds including but not limited to equity funds, bond funds, equity and bond funds, alternative funds such as real estate funds and fund of funds, etc. Due to the unexpected fluctuations of the financial markets and economic conditions, the Company needs to set up a cap that can provide flexibility to accommodate future unexpected volatility in rate movements in the global market.

The Inter-bank Connected Transactions involve transactions among banks or financial institutions, which are regulated by monetary authorities in all regions. For these transactions, a buy order and a sell order will be regarded as two transactions, and the amounts involved will therefore count twice. Accordingly, the historical transaction amounts are not a good indicator to estimate the future transaction amounts.

The foreign exchange transactions include spot, forward and outright transactions, and exercised currency options, which may vary significantly depending on the prevailing market rates. The revenue or loss generated from these transactions is largely dependent on the relative strength or weakness of the currency, which is beyond the Group's control. Given the market-driven nature of the foreign exchange transactions, it is difficult for the Group to estimate the future transaction amounts, the New Caps of this transaction are set at the same amounts as those of Investment Connected Transactions (except for investment products transactions).

Derivatives transactions include both foreign exchange and interest rate plain vanilla derivatives products, such as interest rate swaps, cross currency interest rate swaps, foreign exchange options, bond options, etc., and in future may include equity derivatives. The trading income generated from these transactions is largely dependent on the trend of interest rates in the global financial markets, which is beyond the control of the Group. Given the market-driven nature and the longer maturity of the derivatives transactions, it is expected that the mark-to-market value of the outstanding deals will demonstrate high fluctuation. In view of this, the Company needs to set up a cap that can provide flexibility to accommodate future unexpected volatility in rate movements in the global market.

The trading of financial assets and the inter-bank capital markets transactions involve dollar bills and exchange fund notes, of which the Group is one of the market makers in Hong Kong. The amount for the trading of financial assets transactions increased by approximately 45% in 2015 as compared to 2014. Given the great uncertainties of these kind of transactions which may vary subject to market conditions, the annual cap for the year ending 31 December 2017 is set with reference to 5% of the total assets of the Group (adjusted to take into account the payment of the final dividend for the year ended 31 December 2015 of approximately HK\$7,179 million) of approximately HK\$2,360,685 million as at 31 December 2015 (being the benchmark figure adopted internally by the Company with reference to the Company's experience in similar transactions and which the Company considers reasonable given the volatility of the capital markets) and after taking into account the average growth rate of the total assets of the Group for the five years ended 31 December 2015, of approximately 7.39% and also an annual growth rate of approximately 50%. For each of the two years ending 31 December 2019, an annual growth rate of approximately 50% is also applied on the annual cap for the year ending 31 December 2017 to set the respective annual caps for each of the trading of financial assets and the inter-bank capital markets transactions. Such annual growth rate, which is considered to be difficult for the Group to estimate, has been determined after taking into account the market-driven nature of the trading of financial assets and the inter-bank capital markets transactions.

Such annual caps provide flexibility for the Group to accommodate future unexpected volatility of the financial markets and the directors of the Company (including the independent non-executive directors) consider that the annual caps for the Inter-bank Connected Transactions for each of the three years ending 31 December 2019 are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Internal Control Procedures

The Company has formulated certain measures and policies, including connected transactions management policies and management measures for connected transactions under the Listing Rules, to ensure that all connected transactions of the Group are properly controlled and monitored. The policies aim to establish an effective framework for monitoring connected transactions (including the transactions with connected parties stipulated under the Banking Ordinance and connected transactions under the Listing Rules), to help maintain sound business operations and to establish risk monitoring system and to ensure that all the connected transactions are conducted in the interests of the Shareholders as a whole. The management measures aim to standardize and specify the division of management responsibilities and duties as well as monitoring mechanism in connection with the connected transactions of the Group, protect the Shareholders' overall interests and also the interests of the Company and its stakeholders. The connected transactions of the Group shall be implemented in accordance with the principles, rules and procedures stipulated in the policies and management measures.

Heads and compliance officers of all units are responsible for ensuring that employees in their relevant units have a comprehensive understanding of the policies and management measures and will implement the provisions therein to ensure that the connected transactions comply with such policies and measures. Responsible units should also formulate detailed plans and measures based on the principles stipulated in the policies and management measures in order to ensure that the Continuing Connected Transactions are in compliance with the Listing Rules.

As part of the internal control and risk management procedures, each responsible unit shall carry out certain procedures prior to the signing of any contracts or agreements, which include reviewing specific contracts between the Company and connected persons, regularly inspecting specific terms of the Continuing Connected Transactions and also comparing such terms with terms of comparable transactions to ensure that the pricing policies and/or other contract terms are on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole.

Each responsible unit shall also report on and submit detailed information on the Continuing Connected Transactions to a centralized independent unit of the Company (the “**Independent Unit**”) for review and analysis prior to the entering into of any specific contracts, and to ensure that the connected transactions are in compliance with applicable laws, rules and regulations as well as the internal policies and management measures.

In addition, as part of the internal control and risk management procedures and to ensure that the Continuing Connected Transactions do not exceed the relevant annual caps, the relevant units shall be responsible for monitoring the transaction amounts and submit the data on the transaction amounts to the Independent Unit on a regular basis. Furthermore, the Independent Unit shall report on any new Continuing Connected Transactions conducted by various units to the Board and/or relevant committees each year. In the event that the transaction amount of any Continuing Connected Transaction incurred or to be incurred for a financial year is expected to reach or exceed the relevant annual caps, the responsible unit will liaise with the Independent Unit to report to the management of the Company and consider measures to be taken to ensure compliance with requirements under the Listing Rules, including obtaining Independent Shareholders' approval if necessary.

The Independent Unit shall report on the Continuing Connected Transactions to the Board, relevant committees and/or the management each year, such that they may conduct review to ensure that the Continuing Connected Transactions are on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Group and in the interests of the Company and its Shareholders as a whole. The independent non-executive directors will also conduct an annual review of the Continuing Connected Transactions in accordance with the Listing Rules. The Company will engage its external auditors to report on the Continuing Connected Transactions every year. The external auditors will provide a letter to the Board confirming the matters required under the Listing Rules including whether the Continuing Connected Transactions are carried out in accordance with the relevant pricing policies.

LISTING RULES REQUIREMENTS

General Connected Transactions

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the New Caps for each of the General Connected Transactions are 0.1% or more but less than 5%, the General Connected Transactions are subject to the reporting, annual review and announcement requirements under Chapter 14A but are exempt from the independent shareholders' approval requirements of the Listing Rules.

Investment Connected Transactions and Inter-bank Connected Transactions

As the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the New Caps for each of the Investment Connected Transactions and the Inter-bank Connected Transactions are 5% or more, each of the Investment Connected Transactions and the Inter-bank Connected Transactions constitutes a non-exempt continuing connected transaction under Chapter 14A of the Listing Rules, and are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As the Investment Connected Transactions and the Inter-bank Connected Transactions will continue following the expiration of the financial year ending 31 December 2016, each of the aggregate transaction values of the Investment Connected Transactions and the Inter-bank Connected Transactions will be closely monitored to ensure that they fall within 5% of the applicable percentage ratios as defined in the Listing Rules, prior to obtaining approval from the Independent Shareholders at the GM. Various control mechanisms have been adopted by the Company to ensure that the relevant connected transactions fall within the 5% threshold. Such mechanisms include generating monthly reports showing the transaction figures for each of the relevant connected transactions, and imposing a lower threshold as an internal cap whereby a warning signal will be issued and preventive measures will be taken immediately if the relevant connected transactions reach the internal cap.

In the event that the Independent Shareholders do not grant approval for the New Caps of Investment Connected Transactions and the Inter-bank Connected Transactions at the GM, the Company will ensure that the transaction amounts of such connected transactions fall within the 5% threshold for the remainder of the year. Further, pursuant to the Services and Relationship Agreement, the Company has the right to exit the relevant connected transactions by giving prior written notice to BOC or its associates, as the case may be.

The Board has set up the Independent Board Committee comprising all of the independent non-executive directors of the Company to review the Investment Connected Transactions and the Inter-bank Connected Transactions and the relevant New Caps and to give recommendations to the Independent Shareholders. The Company has appointed Investec as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders for the purpose of considering whether the Investment Connected Transactions and the Inter-bank Connected Transactions are entered into in the ordinary and usual course of the Group's business, on normal commercial terms, are fair and reasonable, and are in the interests of the Company and its shareholders as a whole, and whether the New Caps are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The directors of the Company (including the independent non-executive directors) are of the view that the General Connected Transactions, the Investment Connected Transactions and the Inter-bank Connected Transactions are entered into in the ordinary and usual course of the Group's business, on normal commercial terms, are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole. The non-executive directors of the Company, namely Mr Tian Guoli, Mr Chen Siqing, Mr Ren Deqi, Mr Gao Yingxin and Mr Xu Luode, are also directors and/or senior management of BOC and accordingly have abstained from voting on the resolutions in respect of the Continuing Connected Transactions and the New Caps at the meetings of the Board.

A circular containing, among other things, (i) details of the Investment Connected Transactions and the Inter-bank Connected Transactions and the New Caps in respect thereof; (ii) a letter from Investec to the Independent Board Committee and the Independent Shareholders containing its advice on the Investment Connected Transactions and the Inter-bank Connected Transactions; and (iii) the recommendation of the Independent Board Committee in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions, will be dispatched to the shareholders of the Company on or about 9 January 2017. A notice of the GM will be dispatched to the Shareholders separately.

BOC Group will abstain from voting on the resolutions in respect of the Investment Connected Transactions, the Inter-bank Connected Transactions and the New Caps at the GM.

INFORMATION ON THE GROUP AND BOC

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

BOC and its subsidiaries, as China's most internationalised and diversified bank, provide a comprehensive range of corporate banking, personal banking, financial market services, investment banking, insurance and other services to its customers in the Mainland of China, as well as other countries and regions.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context otherwise requires:

“ASEAN”	the Association of Southeast Asian Nations
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“BOC”	Bank of China Limited, a joint stock limited liability company established under the laws of the Mainland of China, the H shares and A shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange respectively; being the indirect holder of approximately 66.06% of the total number of issued shares of the Company as at the date of this announcement (as recorded in the register maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))
“BOCCC”	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK
“BOC Group”	BOC and its associates
“BOC Life”	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49% respectively
“BOCG Insurance”	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“BOCHK”	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company
“BOCI”	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“BOCI-Prudential Asset Management”	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly owned subsidiary of BOCI, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36%, respectively
“BOCI-Prudential Trustee”	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited (being a direct non-wholly owned subsidiary of the Company) and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively, and hence it is an indirect non-wholly owned subsidiary of the Company

“BOCI Securities”	BOCI Securities Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCI
“Company”	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong, the shares of which are listed on the Stock Exchange
“Continuing Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions” of this announcement
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“GM”	the general meeting of the Company to be held immediately following the conclusion of the annual general meeting of the Company, tentatively scheduled to be held in May or June 2017 to approve the Investment Connected Transactions and the Inter-bank Connected Transactions
“General Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – General Connected Transactions” of this announcement
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive directors of the Company
“Independent Shareholders”	shareholders (other than BOC Group) who are not required to abstain from voting on the relevant resolutions at the GM
“Inter-bank Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – Inter-bank Connected Transactions” of this announcement
“Investec”	Investec Capital Asia Limited, a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Investment Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – Investment Connected Transactions” of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (and a “Rule” means a rule of the Listing Rules)

“Macau”	Macau Special Administrative Region
“Mainland of China” or “Mainland”	the People’s Republic of China which, for the purposes of this announcement only, excludes Hong Kong, Macau and Taiwan
“New Caps”	the relevant annual caps in respect of each of the Continuing Connected Transactions for each of the three years ending 31 December 2019
“Services and Relationship Agreement”	the Services and Relationship Agreement among, inter alia, the Company and BOC dated 6 July 2002 (as amended and supplemented from time to time)
“Shareholder(s)”	holder(s) of share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sun Chung”	Sun Chung Property Management Company Limited, a company incorporated under the laws of Hong Kong and an indirect wholly owned subsidiary of BOC
“Tai Fung Bank”	Tai Fung Bank Limited, a company incorporated under the laws of Macau and a subsidiary of BOC

By Order of the Board
LUO Nan
Company Secretary

Hong Kong, 14 December 2016

As at the date of this announcement, the Board comprises Mr TIAN Guoli (Chairman), Mr CHEN Siqing* (Vice Chairman), Mr YUE Yi (Vice Chairman and Chief Executive), Mr REN Deqi*, Mr GAO Yingxin*, Mr XU Luode*, Mr LI Jiuzhong, Madam CHENG Eva**, Dr CHOI Koon Shum**, Mr KOH Beng Seng**, and Mr TUNG Savio Wai-Hok**.*

* *Non-executive directors*

** *Independent non-executive directors*