

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in BOC Hong Kong (Holdings) Limited (中銀香港(控股)有限公司), you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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



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)

CONTINUING CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



A letter from the Board is set out on pages 4 to 13 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 14 of this circular. A letter from Investec Capital Asia Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 15 to 30 of this circular. A notice for convening the GM to approve the Continuing Connected Transactions and the New Caps, together with the proxy form for such purpose, will be dispatched separately to the Shareholders in April 2017.

CONTENTS

	<i>Page</i>
DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	14
LETTER FROM INVESTEC	15
APPENDIX – GENERAL INFORMATION	31

DEFINITIONS

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

“Articles of Association”	the articles of association of the Company (as adopted, amended or modified from time to time)
“ASEAN”	the Association of Southeast Asian Nations
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board” or “Board of Directors”	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 6,984,274,213 Shares, representing approximately 66.06% of the total number of issued shares in the Company as at the Latest Practicable Date (as recorded in the register maintained by the Company pursuant to section 336 of the SFO)
“BOC (BVI)”	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 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
“BOCHK Group”	BOCHK and its subsidiaries
“BOCHKG”	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“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

DEFINITIONS

“BOCI Securities”	BOCI Securities Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCI
“Central Huijin”	Central Huijin Investment Limited
“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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the Investment Connected Transactions and the Inter-bank Connected Transactions
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“GM”	the general meeting of the Company to be held immediately following conclusion of the annual general meeting of the Company, tentatively scheduled to be held in June 2017 to approve the Continuing Connected Transactions and the New Caps
“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
“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” in the Letter from the Board in this circular
“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 SFO
“Investment Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – Investment Connected Transactions” in the Letter from the Board in this circular
“Latest Practicable Date”	28 December 2016, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	Macau Special Administrative Region
“Mainland of China” or “Mainland”	the People’s Republic of China and for the purpose of this circular only excludes Hong Kong, Macau and Taiwan

DEFINITIONS

“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)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the same 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)

Board of Directors:

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
Mdm CHENG Eva**
Dr CHOI Koon Shum**
Mr KOH Beng Seng**
Mr TUNG Savio Wai-Hok**

Registered office:

24th Floor
Bank of China Tower
1 Garden Road
Hong Kong

* *Non-executive Directors*

** *Independent Non-executive Directors*

9 January 2017

Dear Shareholders,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 14 December 2016 relating to, among other things, the Continuing Connected Transactions and the New Caps.

Since its listing, the Group has been conducting certain continuing connected transactions with BOC and its associates in the ordinary and usual course of its business on normal commercial terms. As at the Latest Practicable Date, BOC is the controlling shareholder of the Company. Accordingly, BOC and its associates, who are interested in 6,984,274,213 Shares, representing approximately 66.06% of the total number of issued shares in the Company as at the Latest Practicable Date (as recorded in the register maintained by the Company pursuant to section 336 of the SFO), are connected persons of the Company under the Listing Rules.

Pursuant to the Services and Relationship Agreement, BOC and the Group 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 or BOC (as the case may be) than those offered to independent third parties. The Continuing Connected Transactions are governed by the Services and Relationship Agreement, along with the specific agreements entered and to be entered into pursuant thereto, for a period of three years commencing 1 January 2017.

The annual caps for each of the financial years ended 31 December 2014 and 2015 in respect of the Continuing Connected Transactions have not been exceeded. Based on the information available to the Company up to the Latest Practicable Date, the Company does not expect the annual caps for the financial year ending 31 December 2016 to be exceeded.

The main purposes of this circular are:

- (a) to provide you with further details of the Continuing Connected Transactions and the New Caps;
- (b) to set out the letter from Investec to the Independent Board Committee and the Independent Shareholders containing its advice on the Continuing Connected Transactions and the New Caps; and
- (c) to set out the recommendation of the Independent Board Committee in respect of the Continuing Connected Transactions.

LETTER FROM THE BOARD

PARTICULARS OF THE CONTINUING CONNECTED TRANSACTIONS

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

Investment Connected Transactions

1. 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:

	2014	2015	2016*
Historical commissions and revenues (<i>HK\$ million</i>)	245.25	350.89	119.91
	2017	2018	2019
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.

2. 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:

	2014	2015	2016*
Historical commissions and rebates (<i>HK\$ million</i>)	53.99	61.15	20.40
	2017	2018	2019
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.

LETTER FROM THE BOARD

3. 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 pricing policy and payment terms of the insurance agency services are determined with reference to the insurance agency arrangements and terms with other insurance providers, including the relevant product pricing information in the market, as well as the relevant commission rates.

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 (HK\$ million)	761.25	974.10	516.25
	<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.

4. 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 (HK\$ million)	150.00	15.00	30.00
	<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. This transaction, which is newly announced, previously fell within the de minimis threshold and therefore no historical caps were set.

5. 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.

LETTER FROM THE BOARD

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 (<i>HK\$ million</i>)	15.59	15.80	14.89
	<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. This transaction, which is newly announced, previously fell within the *de minimis* threshold and therefore no historical caps were set.

Inter-bank Connected Transactions

6. 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.

LETTER FROM THE BOARD

7. 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.

8. 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.

LETTER FROM THE BOARD

9. 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:

	2014	2015	2016*
Historical value (HK\$ million)	7,873.80	6,433.01	10,480.52
	2017	2018	2019
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

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 estimated annual growth rate of approximately 50%. For each of the two years ending 31 December 2019, an estimated 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. Moreover, with the launch of the Shenzhen-Hong Kong Stock Connect program in December 2016, through which investors in Shenzhen and Hong Kong are able to have direct access to each other's markets, it is expected that there will be a marked increase in the volume of stock business turnover.

LETTER FROM THE BOARD

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. The ASEAN region is a high growth market and key region for the Belt and Road initiative and Renminbi (“RMB”) internationalization. The acquisition of certain ASEAN assets from BOC signifies the start of the transition of BOCHK from a local bank into a regional bank. As mentioned above, 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. BOCHK can ride on its status as the largest offshore RMB clearing bank, and fully leverage its competitive advantages in service, product and resources to build up business scale and strength. This will be instrumental in increasing the competitiveness of the Group in the ASEAN region, and enable the Group to play a major role in providing financial services and connection between China and the ASEAN. Moreover, BOCHK Brunei Branch is the first overseas institution established under the BOCHK brand. It is an important milestone in BOCHK’s overseas expansion in 2016. BOCHK will leverage its mature financial products, expertise and high-end services capabilities to develop its ASEAN business. In view of the regional expansion and continuous business development in the ASEAN region, the Company believes that the Group has succeeded in capturing opportunities arising out of major national strategic initiatives. It has strengthened its collaboration with BOC and raised the Group’s market share and influence in the ASEAN region. 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. It would be consistent with the long term development strategy of the BOCHK Group as a whole in the ASEAN region. As the Investment Connected Transactions are primarily market-driven, there are inherent difficulties in accurately estimating the relevant caps. Furthermore, the Group recorded substantial and unexpected increases in transaction volumes of certain Continuing Connected Transactions, notably in 2006 and 2007, and as a result, the Group had to revise the relevant annual cap amounts of the said transactions in order to allow for such increase. As such, the historical transaction amounts of the Investment Connected Transactions may not be an appropriate reference to determine the expected value of these categories of the transactions for each of the three years ending 31 December 2019. 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 (including the independent non-executive Directors) consider that 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. As the transaction nature for investment products transactions is different from that of other Investment Connected Transactions, the New Caps set for this particular category of transactions are determined with reference to the gross notional amount of the investment transactions instead of using a revenue basis, which is the basis adopted for other Investment Connected Transactions. In addition, 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.

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.

LETTER FROM THE BOARD

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. The trading of inter-bank capital market transactions involves off-shore RMB bonds, Hong Kong dollar bills and exchange fund notes, of which the Group is one of the market makers in Hong Kong. The Group is currently becoming increasingly active in the Group's trading of Euro and US dollar bonds in the Asian market. There were no marked changes in the amount for the inter-bank capital market transactions between 2014 and 2015. However, as at end of November 2016, the accumulated yearly transaction volume for the year is already three times than that recorded in 2015 on a year to year comparison, as BOCHK is developing into an active bond trading centre. BOC overseas branches are now part of the Group's major counterparts in inter-bank capital markets transactions. 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 estimated annual growth rate of approximately 50%. For each of the two years ending 31 December 2019, an estimated 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. The expected annual growth rate is inherently difficult to accurately estimate due to the highly market driven nature of the business, which is beyond the Group's control. Nevertheless, the Group has taken into account several factors in determining the relevant New Caps. As off-shore investors demonstrate an increased interest in buying offshore bonds, BOC branches, as one of the Group's major clients, would increase their purchase of offshore bonds through BOCHK (regardless of the bonds being off-shore RMB or denominated in Euro or US dollar). It is expected that such demand will continue to increase due to the uncertainty in the value of the RMB. BOCHK's bond client trading business has witnessed healthy growth in recent years and is expected to attain an annual growth of more than 50% consecutively in the coming 3 years. The expected target growth is in relation to institutional clients, with a particular focus on central bank clients. BOCHK is currently also very active in the debt capital market business. As BOCHK is expected to be one of the dominant players in debt capital market, BOCHK expects to increase its direct dealings with BOC in the inter-bank capital market in order to source the bonds in which the Group's focus clients are interested.

As the Continuing Connected Transactions are primarily market-driven, there are inherent difficulties in accurately estimating the relevant caps. Furthermore, the Group recorded substantial and unexpected increases in transaction volumes of certain Continuing Connected Transactions, notably in 2006 and 2007, and as a result, the Group had to revise the relevant annual cap amounts of the said transactions in order to allow for such increase. As such, the historical transaction amounts of the Continuing Connected Transactions may not be an appropriate reference to determine the expected value of these categories of transactions for each of the three years ending 31 December 2019. 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.

LETTER FROM THE BOARD

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

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.

The Board has set up the Independent Board Committee comprising all of the independent non-executive Directors to review the Continuing 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 Continuing 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 the Shareholders as a whole, and whether the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Investec has confirmed to the Independent Board Committee that, in its opinion, 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 the Shareholders as a whole, and that the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. On the basis of Investec’s advice and their own review, the Directors (including the independent non-executive Directors) have confirmed that they are satisfied that 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 the Shareholders as a whole, and that the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder who has a material interest in the Investment Connected Transactions and the Inter-bank Connected Transactions must abstain from voting on the relevant resolutions at the GM. BOC and its associates, who are interested in 6,984,274,213 Shares, representing approximately 66.06% of the total number of issued shares in the Company as at the Latest Practicable Date (as recorded in the register maintained by the Company pursuant to section 336 of the SFO), are therefore required to abstain from voting on the resolutions in respect of the Continuing Connected Transactions and the New Caps at the GM.

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.

GENERAL MEETING

The Directors propose that the GM will be held immediately following conclusion of the annual general meeting of the Company, tentatively scheduled to be held in June 2017 to approve the Continuing Connected Transactions and the New Caps. A notice of GM together with a proxy form will be dispatched to the Shareholders in April 2017.

As the Investment Connected Transactions and the Inter-bank Connected Transactions will continue following the expiration of the financial year ended 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.

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.

RECOMMENDATION

The Directors (including the independent non-executive Directors) believe that the Continuing 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 the Shareholders as a whole, and that the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Board of Directors (including the independent non-executive Directors) would recommend the Independent Shareholders to vote in favour of the resolution to approve the Continuing Connected Transactions and the New Caps at the GM.

ADDITIONAL INFORMATION

The Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the New Caps. Investec has been appointed to advise the Independent Board Committee and the Independent Shareholders in such regard. Accordingly, your attention is drawn to the letter of advice from the Independent Board Committee set out on page 14 of this circular, which contains its recommendation to the Independent Shareholders, and the letter from Investec set out on pages 15 to 30 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

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

Yours faithfully,
On behalf of the Board
TIAN Guoli
Chairman



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)

9 January 2017

To: the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 9 January 2017 (the "Circular") to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise you as to whether, in our opinion, so far as the Independent Shareholders are concerned, the Continuing Connected Transactions are entered into in the ordinary and usual course of the Group's business, on normal commercial terms, are fair and reasonable, are in the interests of the Company and the Shareholders as a whole, and that the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Investec has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the New Caps.

We wish to draw your attention to the "Letter from the Board" set out on pages 4 to 13 of the Circular, and the letter from Investec to the Independent Board Committee and Independent Shareholders set out on pages 15 to 30 of the Circular which contains its opinion in respect of the Continuing Connected Transactions and the New Caps.

Having taken into account the advice of Investec and its recommendation in relation thereto, we believe that the Continuing Connected Transactions are entered into in the ordinary and usual course of the Group's business, on normal commercial terms, are fair and reasonable, are in the interests of the Company and the Shareholders as a whole; and that the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend that you vote in favour of the resolution to be proposed at the GM to approve the Continuing Connected Transactions and the New Caps.

Yours faithfully,
TUNG Savio Wai-Hok (*Chairman*)
CHENG Eva
CHOI Koon Shum
KOH Beng Seng
Independent Board Committee

LETTER FROM INVESTEC

The following is the text of the letter of advice from Investec Capital Asia Limited to the Independent Board Committee and the Independent Shareholders prepared for inclusion in this Circular.



Investec Capital Asia Limited
Room 3609-3613, 36/F, Two International Finance Centre
8 Finance Street, Central, Hong Kong
香港中環金融街8號國際金融中心二期36樓3609-3613室
Tel/電話: (852) 3187 5000
Fax/傳真: (852) 2501 0171
www.investec.com

9 January 2017

*To the Independent Board Committee and
the Independent Shareholders of BOC Hong Kong (Holdings) Limited*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

I. INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Continuing Connected Transactions (including the relevant New Caps), details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 9 January 2017 (the "**Circular**") of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise specifies.

From time to time, the Group has been conducting the Continuing Connected Transactions with BOC Group in the ordinary and usual course of its business on normal commercial terms. These Continuing Connected Transactions have been broadly divided into the following three categories, namely (i) Investment Connected Transactions (comprising the securities, fund distribution, insurance agency, investment products, and asset management and referral services transactions); (ii) the Inter-bank Connected Transactions (comprising the foreign exchange and derivatives transactions, trading of financial assets and inter-bank capital markets transactions); and (iii) the General Connected Transactions. The principal terms of the Continuing Connected Transactions were governed by the Services and Relationship Agreement, originally entered into in July 2002, 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 has been renewed and pursuant to the renewal, the term of the Continuing Connected Transactions will be extended for an additional three years commencing from 1 January 2017 to 31 December 2019. Details of the Continuing Connected Transactions together with the New Caps for each of the three financial years ending 31 December 2019 have been set out in this letter below.

BOC, being the controlling shareholder of the Company, indirectly controls approximately 66.06% of the issued share capital of the Company as at the Latest Practicable Date. On this basis, BOC Group are connected persons of the Company under the Listing Rules and the Continuing Connected Transactions will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

In respect of the Investment Connected Transactions and the Inter-bank Connected Transactions, the New Caps represent 5% or more of the applicable percentage ratios as defined in the Listing Rules, the Investment Connected Transactions and the Inter-bank Connected Transactions constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to (i) the annual review requirements; (ii) the reporting and announcement requirements; and (iii) the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. BOC Group are required to abstain from voting at the GM in relation to the resolutions in respect of these Continuing Connected Transactions (i.e. the Investment Connected Transactions and the Inter-bank Connected Transactions).

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of (i) five non-executive Directors, namely Mr TIAN Guoli (Chairman), Mr CHEN Siqing (Vice Chairman), Mr REN Deqi, Mr GAO Yingxin and Mr XU Luode; (ii) two executive Directors, namely Mr YUE Yi (Vice Chairman and Chief Executive) and Mr LI Jiuzhong; and (iii) four independent non-executive Directors, namely Madam CHENG Eva, Dr CHOI Koon Shum, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok.

The Independent Board Committee comprising all four independent non-executive Directors, namely Madam CHENG Eva, Dr CHOI Koon Shum, Mr KOH Beng Seng and Mr TUNG Savio Wai-Hok, has been established to advise the Independent Shareholders on the fairness and reasonableness of the Investment Connected Transactions and the Inter-bank Connected Transactions (including the relevant New Caps) and whether the Investment Connected Transactions and the Inter-bank Connected Transactions (including the relevant New Caps) are in the interests of the Company and the shareholders as a whole.

We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether: (i) the Investment Connected Transactions and the Inter-bank Connected Transactions are conducted in the ordinary and usual course of the business of the Group and on normal commercial terms; (ii) the terms of the Investment Connected Transactions and the Inter-bank Connected Transactions (including the relevant New Caps) are fair and reasonable in so far as the Independent Shareholders are concerned; and (iii) the Investment Connected Transactions and the Inter-bank Connected Transactions (including the relevant New Caps) are in the interests of the Company and the shareholders as a whole, for the Independent Board Committee's consideration when making its recommendation to the Independent Shareholders.

As at the Latest Practicable Date, we were independent from and not connected with the Group in accordance with Rule 13.84 of the Listing Rules, and accordingly, qualified to give independent advice to the Independent Board Committee and the Independent Shareholders in respect of the non-exempt Continuing Connected Transactions (i.e. the Investment Connected Transactions and the Inter-bank Connected Transactions) (including the relevant New Caps). Save for our appointment as the Independent Financial Adviser, we did not act as an independent financial advisor to the Group in the past two years. Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

III. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations provided to us by the Company and/or its management staff (the "**Management**") and/or the executive Directors. We have assumed that all such statements, information, opinions and representations provided or made or given by the Company and/or the Management and/or the executive Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of this letter. We have assumed that all the opinions and representations made or provided by the Management and/or the executive Directors to us have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management and/or the executive Directors that no material facts have been omitted from the information provided.

We consider that we have reviewed sufficient currently available information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or the Management and/or the executive Directors or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the businesses and affairs of the Company, BOC or any of their respective members, subsidiaries or affiliates or the prospects of the markets in which they respectively operate.

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

We have taken into consideration the following principal factors and reasons in formulating our opinion and recommendation with regard to the Continuing Connected Transactions:

1. *Background information of the Group and BOC*

1.1. *Background of the Group*

The Group is a leading commercial banking group in Hong Kong and one of the three note issuing banks in Hong Kong. As at the end of June 2016, the Group had over 220 branches in Hong Kong. With these channels, the Group offers a comprehensive range of financial products and services to individual and corporate customers including efficient e-channels such as self-service machines, Internet and mobile banking services, as well as corporate banking centres. BOCHK is appointed by the People's Bank of China (the "PBOC") as the clearing bank for Renminbi ("RMB") business in Hong Kong.

In connection with recent developments, a number of initiatives have been implemented by the Group to promote capital account convertibility and the internationalisation of the RMB. There was a relaxation of policies on free trade zones; to allow foreign entities to issue "Panda" bonds; and to participate in the Mainland's interbank bond market as well as the interbank foreign exchange market. In addition, the PBOC allowed Hong Kong's RMB clearing banks to join the Mainland's Cross-border Interbank Payment System. The Management believes that these initiatives will further promote the development of the offshore RMB market.

Based on the Group's 2016 interim report for the six months ended 30 June 2016 (the "2016 Interim Report"), in respect of the Group's strategy, the Group shall continue its progress in making a regional transformation. The Group has successfully captured opportunities which have arisen from the implementation of the Mainland's political strategies, including the Belt and Road initiative and the internationalisation of the RMB, as well as continuing to expand its businesses across the ASEAN region, which was evidenced by the Group's recent acquisitions in Thailand and Malaysia as set out in the Company's announcement published on 30 June 2016 (the "ASEAN Acquisition Announcement").

In addition, the Group is focused on expanding its customer base and its proactive management of assets and liabilities and growing its customer deposits and advances to customers through further improvements in deposit structure. As set out in the 2016 Interim Report, such initiative drove business growth in the local market and that the Group has maintained its market leadership in new residential mortgage loans in Hong Kong. Furthermore, the Group has continued to adopt prudent risk management to ensure sustainable business development.

1.2. *Background of BOC*

BOC is one of the largest state-owned commercial banks in the Mainland of China. The shares of BOC are listed on both the Shanghai Stock Exchange and the main board of the Stock Exchange. BOC and its subsidiaries 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.

2. *Background of Services and Relationship Agreement and the Continuing Connected Transactions*

Transactions between the Group and BOC Group under the Continuing Connected Transactions are governed by the Services and Relationship Agreement and/or other specific agreements. In connection with the Continuing Connected Transactions, pursuant to the terms of the Services and Relationship Agreement, BOC has agreed to enter into, and to procure its associates to enter into all arrangements with the Group on an arm's length basis on normal commercial terms and at rates no less favourable than those offered to independent third parties. The Company has also agreed to enter into, and to procure its subsidiaries to enter into all arrangements on the same basis, provided that the rates offered by the Group to the relevant connected parties will be no more favourable than those offered to independent third parties. The Services and Relationship Agreement (as renewed) will be extended for additional three years commencing from 1 January 2017 up to 31 December 2019.

3. The Investment Connected Transactions

3.1. Securities transactions

BOCI Securities, a subsidiary of BOC, from time to time provides securities brokerage services to the Group and its customers.

We understand from the Management that the Group currently executes its securities-related transactions through only two brokerage houses, being BOCI Securities, which is a connected person, and one of the wholly owned subsidiaries of the Group. In connection with the aforesaid securities brokerage services provided 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. As advised by the Management, the percentage of commission shared by BOCI Securities was determined under a number of factors, including the level of data security control and the standard of past performance of BOCI Securities, which is considered by the Management to be in line with market practice.

In connection with our work performed, we have obtained and reviewed (i) the internal guidance for securities transactions of the Group with respect to continuing connected transactions; (ii) the execution services agreement in relation to securities transactions and the relevant amendments (the “**Execution Services Agreement**”) entered into between the Group and BOCI Securities (the only connected person and non-subsiary of the Group that provides securities brokerage services to the Group); (iii) three samples of past services agreements in relation to securities transactions with independent third parties which (a) set out the principal terms, including the relevant commission rates charged for securities brokerage services provided to the Group, which we have compared against those charged by BOCI Securities; and (b) represent all the relevant services agreements with independent third parties brokerage firms engaged by the Group in the past five years; and (iv) an internal assessment provided by the Group showing that the terms of securities transactions entered into between the Group and BOCI Securities are no less favourable than those with independent third parties as a whole, and the relevant costs of securities transactions are fully covered after the relevant commission are shared by BOCI Securities. We concur with the Management that the percentage of commission shared by BOCI Securities is in line with market practice as such commission was negotiated on the principles of fair price and market price between the Group and BOCI Securities. After taking into account the foregoing, we consider to be sufficient to support our aforesaid conclusion.

We have obtained and reviewed the internal guidance for securities transactions of the Group with respect to continuing connected transactions. The Group would also regularly review the transactions under the Execution Services Agreement to ensure the executed transactions are in line with the terms as set out under the Execution Services Agreement and the aforesaid internal guideline. Based on the aforesaid review and control measures adopted by the Group, we concur with the Management that there are appropriate mechanisms in place to ensure the percentage of commission charged by BOCI Securities is in line with market rate.

Having considered the factors set out above and based on our work performed, the Group’s securities transactions with BOC Group (primarily through BOCI Securities) are conducted in the ordinary and usual course of its business and on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned.

3.2. Fund distribution transactions

During its ordinary and usual course of business, the Group may from time to time provide fund distribution services to fund suppliers (including BOCI-Prudential Asset Management). As an intermediary between the fund suppliers and the fund subscribers, the Group promotes and markets various fund products, for a commission on the basis of a certain percentage of the subscription fee and management fee received by the fund suppliers in relation to the funds. Such fees and commissions payable by fund suppliers (including BOCI-Prudential Asset Management) are calculated with reference to 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.

With a view to ensure that terms of the transactions under the relevant distribution agreements to be entered between the Group and BOCI-Prudential Asset Management are in line with the market or no less favourable to the Group than those with independent third parties, the Management advised that prior to entering into the relevant distribution agreements, the Group would compare the market rates of comparable fund distribution transactions. The Group would also regularly review the transactions under the relevant distribution agreements to ensure such executed transactions are in line with the terms set out under the relevant distribution agreements and the agreed fee schedule.

Based on the aforesaid review and control measures adopted by the Group, we concur with the Management that there are appropriate mechanisms in place to ensure the percentage of commission entitled by the Group is in line with market rate.

In connection with our assessment of the fund distribution transactions, 11 samples of distribution and intermediary agreements which set out the principal terms, including the relevant commission rates charged by the Group to (i) BOCI-Prudential Asset Management; and (ii) independent fund suppliers for fund distribution services, were obtained from the Management for our comparison of rates charged to connected persons against those charged to independent third parties. Based on our work performed and samples reviewed, which we consider to be sufficient as these samples represent not less than 25% of total number of distribution and intermediary agreements with fund suppliers currently in place as advised by the Management, it is noted that the commissions charged by the Group to BOCI-Prudential Asset Management are in line with the those charged to the independent fund suppliers for similar types and size of assets under management.

Having considered the factors set out above and based on our work performed, we are of the view that the fund distribution transactions are conducted on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned.

3.3. *Insurance agency*

The insurers and insurance intermediaries in Hong Kong are regulated by the Office of the Commissioner of Insurance. BOCG Insurance offers a range of general insurance products, including accident and health, property damage and general liability. BOC Life offers a range of life insurance products, including, among others, endowments, annuities and whole-life protection plans. The Group, through the provision of insurance agency services to BOCG Insurance and BOC Life, receives commissions in respect of policies issued or renewed.

Based on statistics published by the Office of the Commissioner of Insurance of the Hong Kong Government, BOCG Insurance had a market share of approximately 4.4% of Hong Kong's general insurance market and was ranked fifth largest general insurer in terms of overall gross premiums for general insurance in 2015. BOC Life had a market share of approximately 8.6% of Hong Kong's long term insurance market and was ranked fifth largest long term insurer in terms of annualised premiums for direct new business for individual business in 2015. The Management advised that general insurance products can be customised and attributable to the nature of the general insurance business, each insurance policy must be underwritten separately according to a number of actuarial assumptions, such as the number of participants in the policy, the risk profile of the participant(s) on an individual level and aggregate level (for group insurance), as well as the insurance coverage. The premium charged to a particular policy holder may be subject to these factors, which would in turn affect the commission to be charged by the agent. On the other hand, life insurance products are more standardised.

We note from our discussion with the Management that the terms (including payment terms) of the insurance agency transactions were determined after arm's length negotiations and entered into in accordance with the existing policy, rates as set out in the relevant commission schedule of BOCG Insurance and BOC Life and internal guidelines. Based on (i) the four samples of insurance agency agreements provided by the Management, which set out, among others, the relevant terms and commission schedules for the provision of insurance agency services charged by the Group to the connected persons and independent third parties, which we consider to be sufficient as they represent all of the insurance agency agreements currently in place as advised by the Management; and (ii) our understanding from the Management that the terms of the insurance agency agreements, including the commission rates for various insurance policies and products, were negotiated with the relevant parties as a whole, we consider that the terms of the insurance agency agreements as a whole are fair and reasonable.

With a view to ensure that terms under the relevant agency agreements to be entered between the Group and BOCG Insurance and BOC Life are in line with the market or no less favourable than those with independent third parties, the market rates of comparable insurance agency transactions are reviewed before the Group enters into the relevant agency agreements. In addition, the Group would also review the transactions under the relevant agency agreements regularly to ensure terms in the executed transactions are in line with those set out under the relevant agency agreements. Having considered the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanisms in place to ensure the commission payments received by the Group is in line with market rate.

Based on our work performed and having considered the factors set out above, we are of the view that the insurance agency transactions are made in the ordinary and usual course of business of the Group and on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned.

3.4. *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. In this connection, we have obtained from the Management and reviewed one fund memorandum setting out the management fees charged to investors of five funds issued by the Group, including BOC Group and independent third party investors, which we consider to be sufficient as they represent all of the funds the Group currently acts as the fund manager and the issuer as advised by the Management, and from which we have compared the fees charged by the Group to the connected persons against those charged to independent third party investors and note that the fee level charged to BOC Group is not less favourable than those charged to independent third party investors.

For the subscription and redemption of fund units by retail investors, the relevant price per fund unit is published and determined by the fund administrator, being BOCI-Prudential Trustee. For the subscription and redemption of fund units by institutional investors, the relevant price would be also provided by BOCI-Prudential Trustee, being the fund administrator, upon transaction, the pricing for which is indifferent for BOC Group and independent third party institutional investors for the same fund class based on the applicable fund memorandum prepared by BOCI Prudential Trustee.

Based on the aforesaid review and control measures adopted by the Group, we concur with the Management that there are appropriate mechanisms in place to ensure the management fee and the subscription and redemption price per fund unit in connection with the aforesaid investment products transactions transacted with BOC Group are no less favourable to the Group than those transacted with independent third party investors.

Having considered the factors set out above and based on our work performed, the Group's investment product 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 in so far as the Independent Shareholders are concerned.

3.5. *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.

For the asset management services provided by the Group to BOC Group in general, an investment management agreement would be entered into between the parties setting out, among others, the investment objective, investment restrictions, permitted investments, terms and conditions of such services as well as management fee, which may be charged on a fixed or a combination of fixed and performance-linked basis.

We understand from the Management that to ensure the management fee charged by the Group is in line with the market or no less favourable than those charged to independent third parties, the management fee would be reviewed by the relevant business management committee within the asset management division of the Group, which takes into consideration 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 asset under the Group's management. In this connection, we have reviewed 10 investment management agreements, representing not less than 80% of the relevant agreements in force as at the Latest Practicable Date, and other relevant information provided by the Management.

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 for a pre-agreed number of years with BOC Group in return for its client referrals. We have reviewed three referral agreements between the Group and BOC Group, as well as with independent third parties, representing all of the referral agreements in force as at the Latest Practicable Date, from which we have compared the principal terms (including percentage share of management fee under such sharing arrangement) between the Group and the connected persons against those between the Group and the independent third parties and note that the principal terms (including percentage share of management fee of such sharing arrangement) under the referral agreement with BOC Group are no less favourable than those with independent third party.

Based on the foregoing, we consider samples obtained and reviewed to be sufficient to arrive at the abovementioned conclusion.

Based on our work performed and having considered the factors set out above, we concur with the Management that 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 in so far as the Independent Shareholders are concerned.

4. Inter-bank Connected Transactions

4.1. Foreign exchange transactions

Foreign exchange transactions are entered into by the Group with BOC Group as well as independent third parties from time to time during the ordinary and usual course of its business. Such transactions, which may include spot, forward and outright transactions, and exercised currency options, are executed with reference to prevailing market rates. The Management advised that these transactions are primarily entered into for foreign exchange risk management purpose 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.

The Group generates trading income from foreign exchange transactions as a result of price differences in foreign exchange trades with its customers and with interbank counterparties.

We note from our discussion with the Management, typically the Group executes foreign exchange transactions within a short time frame, subject to the prevailing market conditions. A centralised system (save and except for any foreign currency banknote exchange transactions) processes these foreign exchange transactions, the design and operation of which comply with the Group's risk management and information technology security policies. The operation of the said centralised system is subject to periodic review by both internal and external auditors. Furthermore, to ensure that foreign exchange transactions are executed at the prevailing market rates, the executed price of all foreign exchange transactions are monitored by the General Accounting & Accounting Policy Department of the Group. Having considered the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanisms in place to ensure the foreign exchange transactions are executed at the prevailing market rates.

We have obtained 10 samples of foreign exchange transactions, provided by the Management, entered into between (i) the Group and BOC Group; and (ii) the Group and independent financial institutions, setting out the types and prices of the foreign exchange products transacted. Based on our comparison of transactions between the Group and BOC Group against those between the Group and independent third parties, we note that the reviewed samples of the foreign exchange transactions with BOC Group were entered into in line with the prevailing market rates and with payment terms which are no less favourable than those offered by the Group to independent financial institutions. Furthermore, we have obtained 10 samples of the daily check-in records by the General Accounting & Accounting Policy Department of the Group and note that the reviewed transactions set out therein were carried out within the range of market rates. 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. Based on the abovementioned, we consider the Group's foreign exchange transactions with BOC Group are made on normal commercial terms and on terms no less favourable than those made with independent financial institutions. Considering the nature of the foreign exchange transactions for which the price or rate adopted are based on general market practice and prevailing market conditions, we are of the view that the samples provided, together with the aforesaid control measures adopted by the Group, are sufficient to support our abovementioned conclusion.

Having considered the factors set out above and based on our work performed, we are of the view that the foreign currency transactions are made in the ordinary and usual course of the Group's business and on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned.

4.2. *Derivatives transactions*

The Group enters into over-the-counter and on-exchange derivatives transactions with clients and counterparties during the ordinary and usual course of its business. 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, commodity derivatives and others. These transactions are executed with reference to the prevailing market price and are entered into for various reasons, including to allow BOC Group to hedge their 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.

Revenue of the Group, in the form of trading income, generated from derivatives transactions is as a result of the price differences of the trades between the Group and customers or interbank counterparties, and the mark-to-market gain/losses of all outstanding contracts.

We note from our discussion with the Management, the derivatives transactions are processed and controlled in the same manner as the foreign exchange transactions. The same centralised system also process the derivatives transactions, the design and operation of which comply with the Group's risk management and information technology security policies and is subject to periodic review by both internal and external auditors. In addition, the General Accounting & Accounting Policy Department of the Group monitors all derivatives transactions on a daily basis to ensure that they have been executed at the prevailing market rates. 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. Based on the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanisms in place to ensure the foreign exchange transactions are executed at the prevailing market rates.

The Management has provided 10 samples of derivatives transactions entered into between (i) the Group and BOC Group; and (ii) the Group and independent third parties, setting out the types and prices of the derivatives products transacted. Based on our comparison of transactions between the Group and BOC Group against those between the Group and independent third parties, we note that the reviewed 10 samples of derivatives transactions was entered into with reference to the relevant prevailing market rates and with payment terms which are no less favourable than those offered by the Group to independent third party. In addition, we have also reviewed samples of the daily check-in records by the General Accounting & Accounting Policy Department of the Group and note that the reviewed transactions set out therein were carried out with reference to prevailing market rates. Based on the above, we consider the Group's derivatives transactions with BOC Group are made on normal commercial terms and on terms no less favourable than those made with independent financial institutions. Considering the nature of the derivatives transactions for which the price or rate adopted are based on general market practice and prevailing market conditions, we are of the view that the samples provided, together with the aforesaid control measures adopted by the Group, are sufficient to support our abovementioned conclusion.

Having considered the factors set out above and based on our work performed, we are of the view that the derivatives transactions are made on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned.

4.3. *Trading of financial assets*

From time to time, the Group may enter into various transactions with BOC and its branches, in which BOC and its branches buy and sell secondary interests in loans from and to the Group. Such transactions also include the trading of accounts receivables, forfeitings and other similar types of financial assets.

Based on our discussion with the Management, the trading of financial assets is primarily for the purpose of risk management and to maintain adequate liquidity level. Based on our discussion with the Management, we understand that the Group's risk management unit monitors and reviews the terms of the trading of financial assets transactions to ensure the trading of financial assets transactions are executed at the prevailing market rates or are no less favourable than those available to or from independent third parties. Based on the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanisms in place to ensure the trading of financial assets transactions are executed at the prevailing market rates.

With a view to assess the trading of financial assets transactions, 10 samples of transaction records and relevant agreements entered into by the Group, which set out, among others, the types and prices for the transactions, were obtained from the Management. Based on our review of the sample transactions between the Group and BOC Group, against those between the Group and independent third parties, we note that the principal terms of the trading of financial assets transactions (i) between the Group and BOC Group are in line with those between the Group and independent financial institutions, or, where relevant, (ii) between the Group and BOC Group and those between the Group and independent financial institutions are in line with the Group's internal guideline for pricings of the trading of financial assets, which is indifferent for all connected or non-connected trading counterparties. Considering the vast number of trading of financial assets transactions for which the price or rate adopted are based on general market practice, we are of the view that the samples provided, together with the aforesaid control measures adopted by the Group, are sufficient to support our abovementioned conclusion.

Having considered the factors set out above and based on our work performed, we are of the view that the trading of financial assets transactions are made on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned.

4.4. *Inter-bank capital markets*

With reference to the prevailing market rates, the Group buys and sells debt securities from and to BOC Group in the secondary market for the Group's own investment or to run its customer-driven business.

These transactions in general may include: (i) sale and purchase of exchange fund bills and notes and government bonds issued by the Hong Kong Monetary Authority (the "HKMA"); (ii) securities trading in the inter-bank market; and (iii) customer bond trading. The Management advised that the Group is one of the market makers appointed by the HKMA for exchange fund bills and notes and government bonds in Hong Kong, therefore the Group is obliged to quote price upon requests by other financial institutions (including BOC Group) and to trade at the quoted price (if the price quoted is accepted by the counterparty). In view of the above, the Group is expected to participate actively in the market to maintain the liquidity of the said instruments in the secondary market.

Based on our discussion with the Management, terms of the inter-bank capital market transactions are determined with reference to the relevant prevailing market rates, which are monitored and reviewed by the control units of the Group to ensure that these transactions are executed at the prevailing market rates or are no less favourable than rates available to or from independent third parties. Based on the above review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanisms in place to ensure the inter-bank capital market transactions are executed at the prevailing market rates.

We have obtained from the Management 10 samples of the inter-bank capital markets transactions entered into between the Group and the BOC Group and between the Group and independent third parties, setting out the types and prices of the inter-bank capital market products transacted. Based on our comparison of transactions between the Group and BOC Group against those between the Group and independent third parties, we note that the rates of the reviewed inter-bank capital markets transactions entered into between the Group and BOC Group were in line with the then prevailing market rates and the principal terms (including payment terms) of such inter-bank capital market transactions with BOC Group are no less favourable than those with independent third parties. Considering the nature of the inter-bank capital market transactions for which the price or rate adopted are based on general market practice and prevailing market conditions, we are of the view that the samples provided, together with the aforesaid control measures adopted by the Group, are sufficient to support our abovementioned conclusion.

Having considered the factors set out above and based on our work performed, we are of the view that the continuing connected transactions between the Group and the BOC Group under the inter-bank capital markets category were made on normal commercial terms and on terms no less favourable than those made with independent third parties.

LETTER FROM INVESTEC

5. The New Caps

A summary of the annual caps for each type of the Investment Connected Transactions and Inter-bank Connected Transactions is set below:

Cap amount in HK\$ million For the year ended/ending 31 December	Historical Caps			New Caps		
	2014	2015	2016	2017	2018	2019
Investment Connected Transactions						
Securities transactions	4,500	7,000	10,000	4,500	7,000	10,000
Fund distribution transactions	4,500	7,000	10,000	4,500	7,000	10,000
Insurance agency	4,500	7,000	10,000	4,500	7,000	10,000
Investment products transactions	–	–	–	150,000	250,000	350,000
Asset management and referral services	–	–	–	4,500	7,000	10,000
Inter-bank Connected Transactions						
Foreign exchange transactions	4,500	7,000	10,000	4,500	7,000	10,000
Derivative transactions	4,500	7,000	10,000	4,500	7,000	10,000
Trading of financial assets	150,000	230,000	350,000	150,000	250,000	350,000
Inter-bank capital markets	150,000	230,000	350,000	150,000	250,000	350,000

In assessing the reasonableness and fairness of the New Caps, we have taken into account the following factors:

5.1. Utilisation of historical annual caps in relation to the Continuing Connected Transactions

Based on the information provided by the Management, we have set out in the table below a summary of the historical transaction amounts, annual caps and utilisation for each type of the Investment Connected Transactions and Inter-bank Connected Transactions:

In HK\$ million unless otherwise specified, approximately

For the year ended 31 December	2014			2015			2016		
	Historical amount	Annual cap	Utilisation (%)	Historical amount	Annual cap	Utilisation (%)	Annualised utilisation amount (Note 1)	Annual cap	Estimated Utilisation (%)
Investment Connected Transactions									
Securities transactions	245	4,500	5.4%	351	7,000	5.0%	180	10,000	1.8%
Fund distribution transactions	54	4,500	1.2%	61	7,000	0.9%	31	10,000	0.3%
Insurance agency	761	4,500	16.9%	974	7,000	13.9%	774	10,000	7.7%
Investment products transactions (Note 2)	150	–	NA	15	–	NA	45	–	NA
Asset management and referral services (Note 2)	16	–	NA	16	–	NA	22	–	NA
Inter-bank Connected Transactions									
Foreign exchange transactions	292	4,500	6.5%	354	7,000	5.1%	260	10,000	2.6%
Derivative transactions (Note 3)	139	4,500	3.1%	116	7,000	1.7%	605	10,000	6.1%
Trading of financial assets	16,441	150,000	11.0%	23,798	230,000	10.3%	20,640	350,000	5.9%
Inter-bank capital markets	7,874	150,000	5.2%	6,433	230,000	2.8%	15,721	350,000	4.5%

Notes:

- (1) As the annualised figures are calculated based on the historical transactions amount for the eight months ended 31 August 2016, the actual transaction amount for the year ending 31 December 2016 may differ significantly from the annualised figures.
- (2) This transaction previously fell within the de minimis threshold. Therefore, no historical annual caps were set.
- (3) The absolute value of the historical amount has been adopted.

i. Investment Connected Transactions

As set out in the table above, we note that the utilisation of historical annual caps of each of the securities, fund distribution and insurance agency transactions was (i) approximately 5.4%, 1.2% and 16.9% for the year ended 31 December 2014, respectively; and (ii) approximately 5.0%, 0.9% and 13.9% for the year ended 31 December 2015, respectively.

We understand from discussion with the Management that securities and fund distribution transactions are generally initiated by customers or driven by the customers' decisions according to their own portfolio, such as stock, trust fund and others, which are outside the Group's control, thus not possible to anticipate. We are given to understand that the low utilisation in respect of the historical securities transactions and fund distribution transactions caps may be attributable to one or more of the following reasons: (i) the decrease in trading turnover of the Hong Kong stock market in 2015 and 2016; (ii) the decrease in amount of funds raised in Hong Kong's securities capital market in 2016; and (iii) a buffer having been built in with the intention to cater for any changes in the global financial market.

According to data published on the website of the Stock Exchange, (i) the daily average trading turnover of the Hong Kong stock market was approximately HK\$164.9 billion, HK\$101.5 billion, HK\$73.1 billion, HK\$72.7 billion and HK\$62.6 billion for the second, third and fourth quarters of 2015 and the first and second quarters of 2016, respectively; and (ii) the amount of funds raised on Hong Kong's securities market (including initial public offering) was approximately HK\$208.3 billion for the eight months ended 31 August 2016, as compared with HK\$834.8 billion for the eight months ended 31 August 2015, which partly contributed to the low utilisation of the relevant historical annual caps in the past.

In connection with the insurance agency transactions, these transactions are primarily driven by customers' demand for insurance, of which the Group has no control over the volume and amounts. We note from our discussion with the Management that the reasons for low historical utilisation of insurance agency transactions caps was attributable to, among others, lower than expected growth rate recorded by Hong Kong's insurance market from 2013 to 2016. According to the Office of the Commissioner of Insurance, the gross premiums for general insurance in Hong Kong recorded year-on-year increase of approximately 6.6%, 4.4% and 5.3% in 2013, 2014 and 2015, respectively. Notwithstanding the above, the Management is optimistic about the growth of the Hong Kong insurance market in the foreseeable future.

ii. Inter-bank Connected Transactions

According to the table above, we note that the utilisation of historical annual caps of the foreign exchange transactions, derivatives transactions, trading of financial assets and inter-bank capital markets were (i) approximately 6.5%, 3.1%, 11.0% and 5.2%, respectively, for the financial year ended 31 December 2014; and (ii) approximately 5.1%, 1.7%, 10.3% and 2.8%, respectively, for the financial year ended 31 December 2015.

The foreign exchange transactions and derivatives transactions are primarily related to foreign exchange and derivatives trades with customers and with inter-bank counterparties in the foreign exchange and derivatives market, which are subject to a number of factors, including (i) international trade exchanges volume; and (ii) movement of currencies and interest rates. We understand from the Management that the low utilisation of the foreign exchange transactions cap and derivatives transactions cap was attributable to (i) the lower than expected growth of international trades over the past few years; and (ii) a buffer having been built with the intention to cater for any unexpected changes in the global financial market.

Going forward, the Management expects the volume of the foreign exchange transaction and derivatives transaction to increase. According to statistics in the "Triennial Central Bank Survey of foreign exchange and OTC derivatives markets in 2016" published by the Bank of International Settlement, trading in foreign exchange markets increased from a daily average of US\$4.0 trillion in April 2010 to US\$5.4 trillion in April 2013 and decreased slightly to US\$5.1 trillion in April 2016, and trading in OTC (over-the-counter) interest rate derivatives markets increased from a daily average of US\$2.1 trillion in April 2010 to US\$2.3 trillion in April 2013 and US\$2.7 trillion in April 2016. Having considered that approximately 87.6% of trades being settled in US dollars in April 2016 according to the aforesaid survey, the Management believes that RMB, being the eighth most actively traded currency in the first half of 2016, with approximately 4.0% in global foreign exchange by volume, has significant growth potential.

The Management advised that the main purposes of entering into trading of financial assets transactions are for risk management of assets and to maintain adequate liquidity level. In this connection, should the relevant transaction amount exceeds its annual cap, the Group will be required to seek approval for the revision of the relevant annual cap, which would cause significant undue delay. On this basis, such may prevent the Group from entering into the abovementioned transactions for risk management purposes on a timely basis.

Furthermore, from our discussion with the Management, we understand that the low utilisation of trading of financial assets cap was mainly attributable to the Group's needs during the period and the buffer was necessary to maintain sufficient level of capacity to cater for any changes in market conditions in order to ensure the above mechanisms can work properly.

The inter-bank capital markets transactions involve Hong Kong Exchange Fund dollar and notes of which the Group is one of the market makers in Hong Kong. Accordingly, the Group has an obligation to quote prices upon requests by other banks (including BOC Group). Notwithstanding the above, the decision of whether to enter into a given trade lies with the counterparty. We understand from the Management that when entering into an inter-bank capital markets transaction, a buy order and a sell order will be regarded as two transactions. The Company considers that the reasons for the low historical utilisation of the inter-bank capital markets transactions cap was attributable to, among others, (i) the demand is driven by customers; and (ii) the buffer having been built in to cater for any unexpected increase in demand which may have increased the utilisation notably as the amount under both buy and sell transactions for inter-bank capital markets transactions are included for the purpose of calculating the relevant cap.

iii. Our view

Based on our discussion with the Management, we note that the Continuing Connected Transactions are primarily market-driven. On this basis, the volume and aggregate value of each of the Continuing Connected Transactions may vary from time to time and depends on a number of external factors including fluctuations in the financial markets, economic conditions or new policies/measures promulgated by the relevant government or regulatory bodies which is not within the control of the Group nor possible to anticipate. As such, there are inherent difficulties in accurately estimating the relevant caps. Furthermore, in the past, the Group recorded substantial and unexpected increases in transaction volume of certain Continuing Connected Transactions notably in 2006 and 2007 and as a result the Group had to revise the relevant annual cap amounts of the said transactions in order to allow for such increase.

In view of the above, we concur with the Management that the historical transaction amounts of the Continuing Connected Transactions may not be an appropriate reference to determine the expected value of each type of the transactions for the each of the three years ending 31 December 2019.

5.2. Business expansion of the Group

In determining the New Caps, the Management has taken into factors such as, potential growth and expansion of the Group's business, in particular the co-operation activities with BOC Group, market-driven and unpredictable nature of the transactions, as well as possible introduction of new financial services and products. As disclosed in the 2016 Interim Report, the Group remains focused on driving its business development and capturing new opportunities, especially in the offshore RMB business through its "Going Global" strategy, which was evidenced by the Group's recent acquisitions in Thailand and Malaysia as set out in the ASEAN Acquisition Announcement.

With the continuation of the internationalisation of the RMB, opportunities to service non-Hong Kong residents have increased. The Group has continued to expand its range of RMB products and its related services over the years. Notwithstanding the above, the banking sector in Hong Kong may continue to be challenging as a result of global economic slowdown and the economic restructuring in the Mainland, which put pressure on asset quality. In addition, the depreciation of the RMB resulted in a decrease in offshore RMB deposits in Hong Kong which may in turn have an effect on the demand of RMB products and related services.

Nevertheless, there are also opportunities for banks, especially those arising from the implementation of the Mainland's important strategies, including the Belt and Road initiative, RMB internationalisation, and the "Going Global" strategy of the Group. The Mainland-Hong Kong Mutual Recognition of Funds, along with Shenzhen-Hong Kong Stock Connect which was implemented earlier in 2016, is expected to provide additional drive for the local capital markets.

In accordance with the Group's "Going Global" strategy, the Group aims to further cooperate with its parent bank and BOC Group, to further enhance its financial service capabilities for global customers and jointly expand an even broader offshore RMB business market. In light of the above, the Management expects the Group to continue to grow its international RMB service offering through co-operation and with its parent bank and BOC Group. Moreover, in view of the above detailed increase in cooperation, the Management determined the annual caps for each of the Continuing Connected Transactions to allow a certain degree of flexibility for the Group to conduct more business transactions with BOC Group for each of the three years ending 31 December 2019.

5.3. Industry overview and the recent developments of RMB in the Mainland and Hong Kong

In October 2016, the RMB has become the fifth member of the International Monetary Fund's prestigious Special Drawing Rights ("SDR") basket of currencies, alongside the US dollar, Euro, Japanese yen and British pound. This has paved the way for the wider adoption of the RMB in international trade and bolstering the Mainland's status as a key player in the global financial system. The inclusion of the RMB in the SDR basket has marked a milestone in the internationalisation of the RMB.

In respect of the economy in the Mainland, economic growth has been observed in each of 2014 and 2015, respectively. Accordingly to published information, the gross domestic products (the "GDP") of the Mainland increased by approximately 6.7% in the first half of 2016 while inflation lowered to 1.3% in August 2016. According to figures published by the National Bureau of Statistics of the China, the contribution of consumption to economic growth in the Mainland has been rising as incomes increase. In 2015, consumption contributed 66.4% to economic growth, up 18.2 percentage points from 2013, 14.8 percentage points from 2014, and 16 percentage points from the average of 2001-2012. One of the targets of the 13th Five-Year Plan is to further increase the contribution of consumption to economic growth. Notwithstanding that the Mainland's foreign exchange reserves has decreased slightly from approximately US\$3.3 trillion at the end of January 2016 to approximately US\$3.2 trillion at the end of August 2016. It remained to be the largest in the world.

As for Hong Kong, for the first half of 2016, Hong Kong's real GDP expanded by 1.2% year-on-year, following the 2.4% growth in 2015. As set out in the Half-yearly Economic Report 2016, global economic growth remained slow in the second quarter, yet reflected some relative improvement from the disappointing start of the year. Regional trade flows also showed initial signs of stabilisation after the UK vote in late June in favour of leaving the European Union caused a temporary sell-off in the global financial markets, but had little impact on the wider European and global economy in so far as the second quarter is concerned. Against this background, Hong Kong's total exports of goods resumed modest growth in the second quarter, after declining for previous quarters.

The trade exchange between the Mainland and Hong Kong has been extensive in recent years. According to a publication by Hong Kong Trade Development Council in September 2016, the Mainland has been making positive efforts to change its economic-growth model in recent years. The "13th Five-Year Plan for the Development of Domestic Trade and Circulation" will underscore the supply-side structural reform and the strategy of upgrading and developing the circulation system. The action plan will call for implementing an "action plan for speeding up the innovation of domestic trade and circulation, promoting the supply-side structural reform and expanding consumption" in a bid to deepen the reform of the circulation system and strengthen innovation and transformation; and to deeply implement the "internet and circulation" action, optimise the supply structure and focus on resolving the mismatching of supply and demand.

According to the Mainland's Customs Statistics, bilateral trade between the Mainland and Hong Kong amounted to approximately US\$344 billion (8.7% of the Mainland's total external trade) in 2015, of which exports from the Mainland to Hong Kong stood at approximately US\$332 billion, making Hong Kong the second largest export market.

As set out in the “Half Yearly Monetary and Financial Stability Report” published by the Hong Kong Monetary Authority in September 2016, Hong Kong’s domestic debt market has expanded markedly, on the back of a strong pickup in issuance by both domestic and international borrowers. The public sector, private sector and overseas institutions, especially the multilateral development banks (MDBs), all accessed the market in the first half of 2016, compared to the same period a year before. As a consequence, the total amount of local currency debt outstanding rose sharply. This is in sharp contrast with the offshore RMB market, which saw issuance fall further in the review period. The decline was attributable to a combination of factors, including reduced financing needs of the slowing Mainland economy, further weakness of the RMB and lower borrowing costs onshore. While the trend is unlikely to reverse any time soon, the longer term outlook is still optimistic in view of rising long-term demand for RMB assets. Despite the recent slowdown in offshore RMB activities, it is stated in the “Half Yearly Monetary and Financial Stability Report” that ongoing capital account liberalisation in the Mainland and the implementation of the Belt and Road initiative is expected to support the development of offshore RMB business in Hong Kong going forward.

On this basis, the Management believes that trade exchanges between the Mainland and Hong Kong will become more extensive and that Chinese government policies such as those set out in the 13th Five Year Plan and the Belt and Road initiative is likely to further stimulate the demand of offshore RMB and facilitate the continued liberalisation of RMB as a currency, which in turn will increase the transactions between the Group and BOC Group.

5.4. Basis for determining the New Caps

For each of the Investment Connected Transactions (other than investment products transactions), the foreign exchange transactions and the derivatives transactions, the proposed annual caps for the year ending 31 December 2017 are primarily 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\$57.9 billion for the year ended 31 December 2015, after taking into account the average growth rate of the Group’s revenue for the five years ended 31 December 2015 of approximately 9.2% and 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 applied on the annual cap for the year ending 31 December 2017 to set the respective annual caps for each of the aforementioned types of Continuing Connected Transactions.

We also note from the Management that the proposed annual caps for the year ending 31 December 2017 in relation to each of the investment products transactions, the trading of financial assets and the inter-bank capital markets transactions is primarily 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\$7.2 billion) of approximately HK\$2,360.7 billion 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), after taking into account the average growth rate of the Group’s total assets for the five years ended 31 December 2015 of approximately 7.4% and 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 applied on the annual cap for the year ending 31 December 2017 to set the respective annual caps for each of the investment products transactions, the trading of financial assets and the inter-bank capital markets transactions.

Following the results of the June 2016 referendum, the United Kingdom shall withdraw itself from the European Union, albeit there is no definitive timetable or detailed terms for withdrawal published. In addition, with the 2016 presidential election results of the United States of America (the “U.S.”), there may be potential volatilities in global financial markets as a result of changes in economic and fiscal policies in the years ahead which in turn could affect investor sentiment and preference.

Furthermore, both the U.S. and Hong Kong has experienced low interest rate environment in the recent years and there has been ongoing speculation of interest rate hike by the Federal Reserve and there may be notable changes in U.S. fiscal policy going forward, which may affect global financial markets. Given Hong Kong’s currency peg to the U.S. dollar and its position as one of the leading international trading and financial centres, any such changes would have significant knock on effects on the trading volumes and activities of the Hong Kong Stock Exchange.

Having considered the Group's prior experience in 2006 and 2007, where the annual caps of the Group's continuing connected transactions fell short of the requirements of the underlying business, we concur with the Management that it would be prudent for the Group to set the new annual caps with reference to the existing levels together with annual increments in cap amount over time.

In connection with the New Caps, we have reviewed the relevant internal estimations in relation to the Continuing Connected Transactions for the three financial years ending 31 December 2019. We also understand from the Management that each of the New Caps is based on (i) the relevant internal estimation for each of the Continuing Connected Transactions for the three financial years ending 31 December 2019, details of which have been set out above; (ii) the expected business expansion of the Group as discussed above; and (iii) a buffer to cater for any unexpected changes in the financial markets.

We concur with the Management that this being prudent and reasonable measures to cater for the vicissitudes of the world's financial markets with the view to provide the Group with operational headroom. Consequently, we are of the view that the actual rate of utilisation levels should not be taken as a factor for the determination of the new annual caps.

5.5. *Our view*

Having considered that the following factors,

- (i) the historical Continuing Connected Transactions amount recorded is not an appropriate reference to determine the New Caps, reasons of which are set out under section headed "5. The New Caps";
- (ii) the Group may from time to time extend its product range and services on offer, subject to, among others, compliance of regulatory policies and market demand;
- (iii) the price sensitiveness of certain categories of the Continuing Connected Transactions to market conditions and required to be executed in a short time frame;
- (iv) the Continuing Connected Transactions are primarily market driven and can be unpredictable (as evidenced by the Group's prior experience in revising the relevant cap amount for the inter-bank capital markets transactions and the securities transactions due to unforeseen increase in transaction amounts in 2006 and 2007, respectively) and the obligation to convene a shareholders' meeting to seek independent shareholders' approval to renew the New Caps, in the event that the New Caps are exceeded, may cause unnecessary disruption and/or undue delay to these Continuing Connected Transactions and the operations of the Group;
- (v) the implementation of the Group's "Going Global" strategy would involve the Group's further cooperation with its parent bank and BOC Group, with a view to enhance its financial service capabilities for global customers and jointly expand an even broader offshore RMB business market;
- (vi) a buffer to cater for potential business growth of the Group, any unexpected changes in the financial markets and economic conditions, and to allow a certain degree of flexibility for the Group to conduct more business transactions with BOC Group, subject to the terms of the respective agreements, for each of the three years ending 31 December 2019; and
- (vii) the Group has the right but not the obligation to transact with BOC Group in connection with the Continuing Connected Transactions,

we consider that it is reasonable for the Group to adopt the abovementioned bases in determining the New Caps and are of the view that the New Caps are fair and reasonable as well as in the interests of the Company and the Shareholders as a whole.

Shareholders should note the New Caps represent an estimate based on the information available at the time and that the actual utilisation and sufficiency of the New Caps would depend on a number of factors, including but not limited to, the financial markets, economic conditions and regulatory developments.

V. RECOMMENDATION

Having considered the above principal factors, in particular:

- (i) the background information of the Group and BOC Group;
- (ii) the natures and terms of the Continuing Connected Transactions and the respective transactions contemplated thereunder;
- (iii) the basis for determining the New Caps;
- (iv) Chinese government policies and the Group's stated strategy and business expansion plan; and
- (v) reasons of under-utilisation for the historical annual caps set out under paragraph headed "5.1 Utilisation of historical annual caps in relation to the Continuing Connected Transactions" and factors considered when assessing the New Caps set out under paragraph headed "5.5 Our View",

we are of the view that the terms of the Continuing Connected Transactions (i.e. Investment Connected Transactions and the Inter-bank Connected Transactions), and the transactions contemplated thereunder (together with the relevant New Caps) are on normal commercial terms, in the ordinary and usual course of business of the Group and are fair and reasonable so far as the Shareholders are concerned and are in the interests of the Group and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the resolutions to be proposed at the GM to approve the Continuing Connected Transactions (i.e. the Investment Connected Transactions and the Inter-bank Connected Transactions) (including the relevant New Caps).

Yours faithfully
For and on behalf of
Investec Capital Asia Limited
Alexander TAI
Managing Director
Head of Corporate Finance

Mr. Alexander TAI of Investec Capital Asia Limited is a responsible officer of 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 SFO. He has been active in the field of corporate finance advisory for over 20 years, and has been involved in and completed various corporate finance advisory transactions.

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 are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

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, which has an interest in the Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO. BOC is a joint stock commercial bank with limited liability, established under the laws of the Mainland of China, 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 BOC and its associates. To the extent that BOC 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, none of the Directors is interested 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.

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

As at the Latest Practicable Date, the Directors, the chief executive of the Company and their respective associates had the following interests in the Shares and underlying shares of the Company, which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were 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 of the Listing Rules:

Associated corporation of the Company:
BOC (H shares)

Name of Director	Number of shares/underlying shares held				Total	Approximate % of the total issued H shares
	Personal interests	Family interests	Corporate interests	Other interests		
CHOI Koon Shum	4,000,000	40,000 ^{Note 1}	1,120,000 ^{Note 2}	–	5,160,000	0.01%
Total	<u>4,000,000</u>	<u>40,000</u>	<u>1,120,000</u>	<u>–</u>	<u>5,160,000</u>	<u>0.01%</u>

Notes:

- Such shares are held by the spouse of Dr CHOI Koon Shum.
- Dr CHOI Koon Shum is deemed to be interested in the 1,120,000 shares held through Choi Koon Shum Education Foundation Limited by virtue of the SFO.

All the interests stated above represented long positions. Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the Chief Executive of the Company or 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 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 of the Listing Rules.

4. OTHER ARRANGEMENTS INVOLVING DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors were 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
- (b) none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2015 (the date to which the latest published audited consolidated financial statements of the Company were made up), (i) acquired or disposed of by; (ii) leased to; or (iii) are proposed to be acquired or disposed of by; or (iv) are proposed to be leased to, any member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, with any member of the Group, a service agreement which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. EXPERTS

The following is the qualification of the expert who has given its opinions or advice, which are contained or referred to in this circular:

<u>Name</u>	<u>Qualification</u>
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 SFO

Investec has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, Investec does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Investec does not have any direct or indirect interest in any assets which had been since 31 December 2015 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

7. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Company since 31 December 2015, being the date to which the latest published audited financial statements of the Group were made up.

8. MISCELLANEOUS

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company, at 24th 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:

- (a) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 14 of this circular;
- (b) the letter from Investec, the text of which is set out on pages 15 to 30 of this circular; and
- (c) the Services and Relationship Agreement.