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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.

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CONTINUING CONNECTED TRANSACTIONS

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

**ABLE CAPITAL
PARTNERS**

A letter from the Board is set out on pages 4 to 14 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 15 of this circular. A letter from Able Capital Partners Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 34 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 2020.

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DEFINITIONS

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

“Able Capital”	Able Capital Partners Limited, a corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Amendment of Agreement”	the Amendment of Agreement among, inter alia, the Company and BOC dated 23 December 2019
“ASEAN”	the Association of Southeast Asian Nations
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board” or “Board of Directors”	the board of Directors of the Company
“BOC”	Bank of China Limited, a joint stock company incorporated in the People’s Republic of China with limited liability, 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 Group”	BOC and its associates (excluding the Group)
“BOC Life”	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Group and BOCG Insurance hold equity interests of 51% and 49%, respectively
“BOCG Insurance”	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“BOCHK”	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company
“BOCI”	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“BOCI-Prudential Asset Management”	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly owned subsidiary of BOCI, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36%, respectively
“BOCI-Prudential Trustee”	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee Company Limited, a direct non-wholly owned subsidiary of the Company, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36%, respectively, and hence it is an indirect non-wholly owned subsidiary of the Company
“BOCI Securities”	BOCI Securities Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCI

DEFINITIONS

“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 and Referral 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 May or June 2020 to approve the Continuing Connected Transactions and the New Caps
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“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 resolution 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
“Investment and Referral Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – Investment and Referral Connected Transactions” in the Letter from the Board in this circular
“Latest Practicable Date”	13 January 2020, 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
“Macao”	Macao Special Administrative Region of the People’s Republic of China
“Mainland of China” or “Mainland”	the People’s Republic of China and, for the purpose of this circular only, excludes Hong Kong, Macao and Taiwan
“New Caps”	the relevant annual caps in respect of each of the Continuing Connected Transactions for each of the three years ending 31 December 2022
“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)

DEFINITIONS

“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 meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules



中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2388)

Board of Directors:

Mr LIU Liange* (*Chairman*)
Mr GAO Yingxin (*Vice Chairman and Chief Executive*)
Mr LIN Jingzhen*
Mdm CHENG Eva**
Dr CHOI Koon Shum**
Mr KOH Beng Seng**
Mr LAW Yee Kwan Quinn**
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*

16 January 2020

Dear Shareholders,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 23 December 2019 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 Company have agreed to enter into, and to procure their respective associates or subsidiaries (as the case may be) to enter into, transactions on an arm's length basis, on normal commercial terms and at rates no less favourable to the Group than those available to or from independent third parties.

On 23 December 2019, the parties entered into the Amendment of Agreement to renew the Services and Relationship Agreement and to amend certain terms thereof. Accordingly, the Services and Relationship Agreement, as renewed and amended, along with the specific agreements entered and to be entered into pursuant thereto, will continue to govern the Continuing Connected Transactions for a further period of three years commencing on 1 January 2020.

The annual caps for each of the financial years ended 31 December 2017 and 2018 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 ended 31 December 2019 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 Able Capital 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 and Referral Connected Transactions and the Inter-bank Connected Transactions, and the New Caps are set out below.

Investment and Referral 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. Despite the absence of securities transactions between the Group and independent third parties since 2011, the Group regularly reviews the terms of the service agreements in respect of its securities transactions with BOCI Securities based on the prevailing market conditions, including but not limited to the stability of the overall brokerage market and brokerage fee charged to customers, in order to ensure the percentage of commission charged by BOCI Securities is in line with the prevailing market practice. In determining the commission, the Group has also considered the potential benefits and synergies that may be derived from its cooperation with BOC Group.

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

	<u>2017</u>	<u>2018</u>	<u>2019*</u>
Historical commissions (HK\$ million)	237.61	246.98	121.18
	<u>2020</u>	<u>2021</u>	<u>2022</u>
New Caps (HK\$ million)	5,000	7,000	10,000

* For the eight months ended 31 August 2019 while the annual caps for the years ended 31 December 2017, 2018 and 2019 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 which includes mandatory provident fund. The Group promotes and sells various fund products, including guaranteed fund and open-ended fund products, in its capacity as an intermediary or referrer 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 rates shall be no less favourable to the Group than those entered into with independent third parties and on normal commercial terms. The Group has been conducting similar transactions with no less than 30 independent fund suppliers. In determining the prevailing market rates in its transactions with BOCI-Prudential Asset Management, the Group generally makes reference to the fees and commissions offered by such independent fund suppliers for the provision of similar services.

LETTER FROM THE BOARD

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

	<u>2017</u>	<u>2018</u>	<u>2019*</u>
Historical commissions and rebates (HK\$ million)	31.59	29.97	17.14
	<u>2020</u>	<u>2021</u>	<u>2022</u>
New Caps (HK\$ million)	5,000	7,000	10,000

* For the eight months ended 31 August 2019 while the annual caps for the years ended 31 December 2017, 2018 and 2019 were HK\$4,500 million, HK\$7,000 million and HK\$10,000 million, respectively.

3. Insurance Agency and Insurance Referral

The Group provides to BOCG Insurance and BOC Life insurance agency and insurance referral services and receives commission payments or referral fees in respect of the policies issued or renewed in accordance with the rates set out in the relevant fee 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. BOCG Insurance and BOC Life may, according to business need, offer sales incentive and client promotion fees to the Group. These incentives are determined with reference to the payment terms and conditions offered by independent third parties to the Group.

In conjunction with the provision of insurance referral services, the Group pays BOC Life service fees calculated as five percent of referral fees received in return for the sales and administration services provided by BOC Life on the relevant policies. The rate of referral fees after deducting the sales and administration service fees is similar to the rate of commission charged by the Group for the provision of insurance agency services with respect to the same insurance products.

Moreover, the Group provides insurance referral services to BOCI Private Wealth Management Limited (a subsidiary of BOCI), and receives a referral fee from BOCI Private Wealth Management Limited for the services provided. The fee rate for the insurance referral services is no less favourable to the Group than the fee rate charged by the Group to independent third parties.

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

	<u>2017</u>	<u>2018</u>	<u>2019*</u>
Historical commissions (HK\$ million)	877.77	1,036.37	774.46
	<u>2020</u>	<u>2021</u>	<u>2022</u>
New Caps (HK\$ million)	5,000	7,000	10,000

* For the eight months ended 31 August 2019 while the annual caps for the years ended 31 December 2017, 2018 and 2019 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 for investment funds of which the Group acts as the fund manager or the issuer; or the Group subscribes for investment funds of which BOC Group acts as the fund manager or the issuer. These investment funds include open-ended or close-ended public or private funds, etc.

The Group derives a management fee from both retail and institutional subscribers or pays a management fee to BOC Group when it subscribes for funds. The management fee for each investment product may vary depending on, among others, the size and nature of the investment fund, and will be determined according to the market practice and on normal commercial terms or better.

LETTER FROM THE BOARD

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 all investors of the same fund units (including BOC Group, the Group and independent third party investors). The rates of the associated management fee, performance fee and other applicable fees have been set out in a memorandum prepared by BOCI-Prudential Trustee and are no less favourable to the Group than those available to independent third parties.

The table below sets out the historical value and fee income and the New Caps (for the avoidance of doubt, the amounts paid and received by the Group are not netted for the purpose of calculating the New Caps) for the investment products transactions described above:

	2017	2018	2019*
Historical value and fee income (<i>HK\$ million</i>)	1,421.95	1,314.14	545.50
	2020	2021	2022
New Caps (<i>HK\$ million</i>)	200,000	250,000	350,000

* For the eight months ended 31 August 2019 while the annual caps for the years ended 31 December 2017, 2018 and 2019 were HK\$150,000 million, HK\$250,000 million and HK\$350,000 million, respectively.

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 and account opening services.

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

For the customer referrals by BOC Group to the Group in connection with the Group's asset management services and account opening 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 determined based on the resources and effort contributed by the parties and is no less favourable to the Group than those available from independent third parties. The relevant business unit of the Group determines the percentage of management fee on the above basis, and report detailed information on the transactions to the Independent Unit (as defined in the section headed "Internal Control Procedures" in the "Letter from the Board" of this circular) for review before entering into any specific contracts.

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 revenues and payments and the New Caps (for the avoidance of doubt, the amounts paid and received by the Group are not netted for the purposes of calculating the historical amounts and the New Caps) for the asset management and referral services described above:

	2017	2018	2019*
Historical revenues and payments (<i>HK\$ million</i>)	80.03	58.26	36.65
	2020	2021	2022
New Caps (<i>HK\$ million</i>)	5,000	7,000	10,000

* For the eight months ended 31 August 2019 while the annual caps for the years ended 31 December 2017, 2018 and 2019 were HK\$4,500 million, HK\$7,000 million and HK\$10,000 million, respectively.

LETTER FROM THE BOARD

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 swap transactions, exercised currency options and foreign currency bank-note exchange transactions with BOC. All these transactions are executed on arm's length basis. Such transactions are entered into primarily for the purpose of foreign exchange risk management and in response to customer-driven transactions.

The Group conducts foreign exchange transactions with BOC Group in inter-bank market at the prevailing market price. Foreign exchange market is an open and quote-driven market. Foreign exchange transactions are conducted through money brokerage firms or market makers or through over-the-counter negotiations, and prices are determined with reference to the bid and offer prices quoted by market participants at the time of the transaction. Prices of foreign exchange transactions are transparent and there are no restrictions or difficulties in obtaining historical and real time data from the financial market. Middle office and back office of the Company serve as the second and third line of compliance check point to monitor the foreign exchange transactions.

The Group also enters into foreign exchange business partnership with BOC Group to provide products and financial services to customers by utilizing the price advantage of offshore RMB exchange rate. BOCHK provides offshore RMB price quoting services to BOC Mainland branches. On top of BOCHK's price, BOC Mainland branches mark up to their end clients. BOCHK earns from the difference between its trading cost and the price quoted to BOC Mainland branches, whereas BOC Mainland branches earn income from their mark up to end clients based on the quoted price from BOCHK. Income earned by BOC Mainland branches under this business model is retained in Hong Kong and can be transferred to their onshore accounts upon requests. All retained earnings on spot foreign exchange transactions will be transferred back to BOC Mainland branches. For foreign exchange forward transactions under this model, BOCHK keeps part of the retained earnings according to the split percentage set forth in the bilateral agreements between BOCHK and BOC Mainland branches.

In addition, along with the development of many Chinese enterprises' "Going Global" growth strategy, as well as the Group's echo in supporting China's promotion on "The Belt and Road Initiative" national strategy, BOCHK sets up the Cross-border Referral Model with BOC Mainland branches on the joint marketing scheme to BOC Mainland branches' clients. Under the model, BOC Mainland branches refer their clients to BOCHK for, including but not limited to, account opening and carrying out foreign exchange transactions. Income generated under this model is the difference between BOCHK's trading cost and the quoted price to the client. Such earning is shared between BOCHK and BOC Mainland branches based on the split percentage bilaterally agreed. The proportion of income attributable to BOC Mainland branches will be retained in Hong Kong and will be transferred to their onshore accounts upon requests. The split percentage of earning shared between the parties is determined according to their respective assessments on the resources and efforts contributed by the parties and the benefits that may be attained under the arrangement, including but not limited to the new clients and new business opportunities brought about by the cooperation. Before entering into any specific contracts in respect of the transactions conducted under the Cross-border Referral Model, the relevant business unit will report detailed information on the transactions (including the split percentage of earning shared between the parties) to the Independent Unit (as defined in the section headed "Internal Control Procedures" in the "Letter from the Board" of this circular) for review.

The price for each transaction shall be determined based on the market practice, the prevailing market conditions, the price of the trade products, and/or various risk management requirements of the Group.

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

	<u>2017</u>	<u>2018</u>	<u>2019*</u>
Historical trading income/(losses) (HK\$ million)	(105.11)	384.39	544.74
	<u>2020</u>	<u>2021</u>	<u>2022</u>
New Caps (HK\$ million)	5,000	7,000	10,000

* For the eight months ended 31 August 2019 while the annual caps for the years ended 31 December 2017, 2018 and 2019 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 (but not limited to) foreign exchange, commodity, equity and interest rate derivatives products such as interest rate swaps, cross currency interest rate swaps, foreign exchange options, bond options, equity derivatives, 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. Derivatives products (especially plain vanilla derivatives products, such as interest rate swap and foreign exchange options) are traded in an open and quote-drive market. Derivatives transactions are conducted through money brokerage firms or market makers or through over-the-counter negotiations, and prices are determined with reference to the prices quoted by market participants or the prevailing prices of the related exchange-traded derivatives products at the time of the transaction. Prices of derivatives transactions are transparent and there are no restrictions or difficulties in obtaining historical and real time data from the financial market, especially for plain vanilla derivatives products which account for more than 95% of the derivatives transactions of the Group. Middle office and back office of the Company serve as the second and third line of compliance check point to monitor the derivatives transactions.

Such transactions are entered into for various reasons, including allowing 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 meeting the need of their customer-driven business. The price for each transaction shall be determined based on the general financial market practice, the prevailing market conditions, the price of the trade products, the price quoted by third parties and/or various risk management requirements of the Group.

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

	<u>2017</u>	<u>2018</u>	<u>2019*</u>
Historical trading income/(losses) (HK\$ million)	56.81	1.39	(885.85)
	<u>2020</u>	<u>2021</u>	<u>2022</u>
New Caps (HK\$ million)	5,000	7,000	10,000

* For the eight months ended 31 August 2019 while the annual caps for the years ended 31 December 2017, 2018 and 2019 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 prevailing market rates are determined by reference to a number of factors, including but not limited to the Group's funding cost, the obligor's credit rating and the prevailing market conditions. The pricing strategies are equally applied to all entities with which the Group conducts similar transactions (including BOC Group and independent third parties). The risk management unit of the Group monitors and reviews the terms of trading of financial assets to ensure the transactions are executed at prevailing market rates or at rates that 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 the avoidance of doubt, the amounts paid and received by the Group are not netted for the purposes of calculating the historical amounts and the New Caps) for such transactions:

	<u>2017</u>	<u>2018</u>	<u>2019*</u>
Historical value (HK\$ million)	25,024.72	13,650.74	10,439.46
	<u>2020</u>	<u>2021</u>	<u>2022</u>
New Caps (HK\$ million)	200,000	250,000	350,000

* For the eight months ended 31 August 2019 while the annual caps for the years ended 31 December 2017, 2018 and 2019 were HK\$150,000 million, HK\$250,000 million and HK\$350,000 million, respectively.

LETTER FROM THE BOARD

9. Inter-bank Capital Markets

The Group buys and sells debt securities (issued by BOC Group or independent third parties) from and to BOC Group in the primary market and 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 at rates that are no less favourable than those 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 the avoidance of doubt, the amounts paid and received by the Group are not netted for the purposes of calculating the historical amounts and the New Caps) for such transactions:

	<u>2017</u>	<u>2018</u>	<u>2019*</u>
Historical value (HK\$ million)	13,409.34	7,539.35	7,912.49
	<u>2020</u>	<u>2021</u>	<u>2022</u>
New Caps (HK\$ million)	200,000	250,000	350,000

* For the eight months ended 31 August 2019 while the annual caps for the years ended 31 December 2017, 2018 and 2019 were HK\$150,000 million, HK\$250,000 million and HK\$350,000 million, respectively.

REASONS AND BASIS FOR THE ANNUAL CAPS AND INTERNAL CONTROL PROCEDURES

Investment and Referral Connected Transactions and Inter-bank Connected Transactions

The Investment and Referral 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 Insurance Authority. The Investment and Referral 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 and insurance referral 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, standard cap amounts of HK\$5,000 million, HK\$7,000 million and HK\$10,000 million are proposed for each of the Investment and Referral Connected Transactions (except for investment products transactions) for the three years ending 31 December 2022. The annual cap for the year ending 31 December 2020 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\$68,134 million for the year ended 31 December 2018 after taking into account the average growth rate of the revenue of the Group for the five years ended 31 December 2018 of approximately 5.82% and also an estimated annual growth rate of approximately 30%. For each of the two years ending 31 December 2022, an estimated annual growth rate of approximately 30% is also applied on the annual cap for the year ending 31 December 2020 to set the respective annual caps for each of the Investment and Referral Connected Transactions (except for investment products transactions).

Investment products transactions involve subscription of investment funds of which the Group acts as the fund manager or the issuer, or the investment funds of which the BOC Group acts as the fund manager or the issuer. As the transaction nature for investment products transactions is different from that of other Investment and Referral 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 the revenue, which is the basis adopted for other Investment and Referral 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 Company has reviewed the level of the New Caps against the historical utilization of the annual caps, its business initiatives and pipelines, and considered that the New Caps provide a reasonable buffer for any substantial and unexpected changes in transaction volumes.

LETTER FROM THE BOARD

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. As the Inter-bank Connected Transactions are primarily market-driven, the historical transaction amounts are not a good indicator to estimate the future transaction amounts.

The foreign exchange transactions include spot, forward and outright swap transactions, exercised currency options and foreign currency bank-note exchange transactions, 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, and the New Caps of this transaction are set at the same amounts as those of the Investment and Referral 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, equity derivatives, etc. The trading income generated from these transactions is largely dependent on the trend of interest rates in the global financial markets, which is beyond the control of the Group. Given the market-driven nature and the longer maturity of the derivatives transactions, it is expected that the mark-to-market value of the outstanding deals will demonstrate high fluctuation. In view of this, the Company needs to set up a cap that can provide flexibility to accommodate future unexpected volatility in rate movements in the global market.

The trading of financial assets and the inter-bank capital markets transactions involve offshore 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 BOC Group's trading of Euro and US dollar bonds in the Asian market. BOC overseas branches are now part of the Group's major counterparts in inter-bank capital markets transactions. Given the great uncertainties of these kinds of transactions which may vary subject to market conditions, the annual cap for the year ending 31 December 2020 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 2018 of approximately HK\$9,759 million) of approximately HK\$2,943,144 million as at 31 December 2018 (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 2018 of approximately 7.68% and also an estimated annual growth rate of approximately 30%. For each of the two years ending 31 December 2022, an estimated annual growth rate of approximately 30% is also applied on the annual cap for the year ending 31 December 2020 to set the respective annual caps for each of the trading of financial assets and the inter-bank capital markets transactions. The Group has taken into account several factors in determining the relevant New Caps. As offshore 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 offshore 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 rate 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. Given the great uncertainties of these kinds of transactions which may vary subject to market conditions, standard cap amounts of HK\$200,000 million, HK\$250,000 million and HK\$350,000 million are proposed for the trading of financial assets and the inter-bank capital markets transactions for the three years ending 31 December 2022, which are consistent with the annual caps set for these transactions for the three years ended 31 December 2019.

Given the inherently uncertain nature of the Investment and Referral Connected Transactions and the Inter-bank Connected Transactions, the annual growth rate applied in estimating the New Caps may not correspond with the pattern of the historical annual growth rates of the Group's revenue or total assets. Therefore, the estimated annual growth rate of 30% as disclosed above is determined not only by reference to the historical annual growth rates of the Group's revenue or total assets in recent years, but also the impacts from volatility in the financial markets. In particular, the Company has taken into account the previous instance in 2006 and 2007 when it had to revise the relevant annual caps to allow for the substantial and unexpected increases in transaction volumes of certain Continuing Connected Transactions. To factor in the impact arising from volatility in the financial markets which is sensitive to changes in economic environment and market sentiments, the Company has been applying an annual growth rate higher than the average growth rate of its revenue or total assets. As a prudent measure, the Company has conducted a review over the annual growth rate applied, and has reduced the annual growth rate from 50% for the three years ended 31 December 2019 to 30% for the three years ending 31 December 2022 to provide a reasonable buffer.

The New Caps provide flexibility for the Group to accommodate future unexpected volatility of the financial markets, and the Directors (including the independent non-executive Directors) consider that the New Caps for the Investment and Referral Connected Transactions and the Inter-bank Connected Transactions for each of the three years ending 31 December 2022 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

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), help maintain sound business operations, establish risk monitoring system and ensure that all the connected transactions are conducted in the interests of the Shareholders as a whole. The management measures aim to standardize and specify the division of management responsibilities and duties as well as monitoring mechanism in connection with the connected transactions of the Group, protect the Shareholders' overall interests and also the interests of the Company and its stakeholders. The connected transactions of the Group shall be implemented in accordance with the principles, rules and procedures stipulated in the policies and management measures.

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

As part of the internal control and risk management procedures, each responsible unit shall carry out certain procedures prior to the signing of any contracts or agreements, which include reviewing specific contracts between the Company and connected persons, regularly inspecting specific terms of the Continuing Connected Transactions and also comparing such terms with terms of comparable transactions to ensure that the pricing policies and/or other contract terms are on normal commercial terms, fair and reasonable, in the ordinary and usual course of business of the Group and in the interests of the Company and the 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 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 the 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 and Referral 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 and Referral Connected Transactions and the Inter-bank Connected Transactions are 5% or more, the Investment and Referral 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 the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER FROM THE BOARD

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 Able Capital 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.

Able Capital has confirmed to the Independent Board Committee that, in its opinion, the Investment and Referral 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 Able Capital's advice and their own review, the Directors (including the independent non-executive Directors) have confirmed that they are satisfied that the Investment and Referral 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.

Pursuant to Rule 14A.36 of the Listing Rules, any Shareholder who has a material interest in the Investment and Referral Connected Transactions and the Inter-bank Connected Transactions must abstain from voting on the relevant resolution 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 resolution in respect of the Continuing Connected Transactions and the New Caps at the GM.

The non-executive Directors, namely Mr LIU Liange and Mr LIN Jingzhen, are also directors 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 May or June 2020 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 2020.

As the Investment and Referral Connected Transactions and the Inter-bank Connected Transactions will continue following the expiration of the financial year ended 31 December 2019, each of the aggregate transaction values of the Investment and Referral 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 the Investment and Referral 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 GROUP

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, Hong Kong, Macao and Taiwan, as well as other countries and regions.

LETTER FROM THE BOARD

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. Able Capital 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 15 of this circular, which contains its recommendation to the Independent Shareholders, and the letter from Able Capital set out on pages 16 to 34 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
LIU Liange
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)

16 January 2020

To: the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 16 January 2020 (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 whether the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Able Capital 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 14 of the Circular, and the letter from Able Capital to the Independent Board Committee and the Independent Shareholders set out on pages 16 to 34 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 Able Capital 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
LAW Yee Kwan Quinn
Independent Board Committee

LETTER FROM ABLE CAPITAL

The following is the text of a letter of advice from Able Capital Partners Limited to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



ABLE CAPITAL PARTNERS LIMITED

Unit 2201, 22nd Floor
Cosco Tower
183 Queen's Road Central
Hong Kong

16 January 2020

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 respect of 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 issued by the Company to the Shareholders dated 16 January 2020 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meaning as those defined in the Circular unless the context requires otherwise.

From time to time, the Group has been conducting the Continuing Connected Transactions with the BOC Group in the ordinary and usual course of its business since the listing of the Company in 2002. Pursuant to the Services and Relationship Agreement, the parties have agreed to enter into, and to procure their respective associates or subsidiaries (as the case may be) to enter into, transactions which include the following three categories, namely (i) the General Connected Transactions (comprising information technology services, property-related transactions, bank-note delivery, provision of insurance cover, card services, custody business and contact centre services); (ii) the Investment and Referral Connected Transactions (comprising securities, fund distribution, insurance agency and referral, investment products, and asset management and referral services transactions); and (iii) the Inter-bank Connected Transactions (comprising foreign exchange, derivatives, trading of financial assets and inter-bank capital markets transactions). These transactions are regulated by the Services and Relationship Agreement and the specific agreements entered and to be entered into from time to time pursuant thereto by the relevant members of the Group.

The Services and Relationship Agreement (as amended and supplemented from time to time) 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 2020 to 31 December 2022. Details of the Continuing Connected Transactions together with the New Caps for each of the three years ending 31 December 2022 have been set out in this letter below.

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 and Referral Connected Transactions and the Inter-bank Connected Transactions are 5% or more, the Investment and Referral Connected Transactions and the Inter-bank Connected Transactions constitute non-exempt continuing connected transactions, and are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

BOC is the controlling shareholder of the Company which indirectly controls approximately 66.06% of the issued share capital of the Company as at the Latest Practicable Date. Hence, the BOC Group are connected persons of the Company under the Listing Rules and the Continuing Connected Transactions contemplated under the Services and Relationship Agreement (as renewed and amended) constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Accordingly, the BOC Group will be required to abstain from voting on the resolution in respect of the Continuing Connected Transactions and the New Caps at the GM.

The Independent Board Committee comprising all five independent non-executive Directors, namely Madam CHENG Eva, Dr CHOI Koon Shum, Mr KOH Beng Seng, Mr LAW Yee Kwan Quinn and Mr TUNG Savio Wai-Hok, has been established to advise the Independent Shareholders as to (i) whether the Continuing Connected Transactions (including the relevant New Caps) are in the ordinary and usual course of the Group's business and are in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Continuing

LETTER FROM ABLE CAPITAL

Connected Transactions are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (iii) whether the New Caps have been fairly and reasonably arrived at; and (iv) how the Independent Shareholders should vote in respect of the relevant resolution to be proposed at the GM. As the independent financial adviser, our role is to give independent advice to the Independent Board Committee and the Independent Shareholders in such regard.

As at the Latest Practicable Date, we are not associated with the directors, chief executive and substantial shareholders of the Company or the BOC Group or any of their respective subsidiaries or associates and are therefore considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. There was no previous engagement between us and the Company or the BOC Group or any of their respective subsidiaries or associates in the past two years. Apart from the normal professional fees paid or payable to us in connection with this appointment as the independent financial adviser, no arrangement exists whereby we had received any other fees or benefits from the Company or the directors, chief executive and substantial shareholders of the Company or the BOC Group or any of their respective subsidiaries or associates.

II. BASIS OF OUR ADVICE

In formulating our advice and recommendation, we have relied on the statements, information, opinions and representations provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions and representations provided or given to us or contained or referred to in the Circular were true, accurate, representative and complete in all respects at the time they were made and continue to be true as at the Latest Practicable Date.

We have also assumed that all views, opinions and statements of intention provided by the Directors and the Management have been reasonably made after due and careful enquiry. The Directors have confirmed to us that no material or exceptional facts have been withheld or omitted from the information supplied and opinions expressed. We consider that we have been provided with, and have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view and to provide a reasonable basis for our opinion.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the 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 in the Circular misleading. We, as the independent financial adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position, plans, projections or prospects of the Company, the BOC Group or any of their respective subsidiaries or affiliates in which they respectively operate. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in the market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion.

Lastly, this letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Continuing Connected Transactions (including the relevant New Caps) and, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

III. PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Continuing Connected Transactions (including the relevant New Caps), we have considered the following principal factors and reasons:

1. Background information of the Group and the BOC Group

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 September 2019, the Group had 194 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.

On 4 December 2018, the Group entered into agreement with BOC in relation to the acquisition of BOC Vientiane Branch and subsequently completed the acquisition on 21 January 2019. Currently, BOCHK has developed into a regional bank with operating entities in eight Southeast Asian countries, including Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia, Laos and Brunei. On 27 March 2019, the Hong Kong Monetary Authority ("HKMA") granted the first batch of three virtual banking licences to conduct virtual banking businesses in Hong Kong, including Livi VB Limited ("Livi"), which is a joint venture co-owned by the Group, JD New Orbit Technology (Hong Kong) Limited and JSH Virtual Ventures Holdings Limited. Livi will be launched using trendy technologies like AI, block chain, big data and smart risk modelling in a bid to create a seamless digital ecosystem. The Board believes that the establishment of the virtual bank business will foster fintech innovation, promote financial inclusion in Hong Kong and enhance customer experience.

We note from the Group's 2019 interim report for the six months ended 30 June 2019 (the "2019 Interim Report") that the Group committed to its strategy of building a top-class, full-service and internationalised regional bank to ensure a balanced and sustainable development. It strived to be customer-centric, expedited its transformation into a digital bank, continued to refine its diversified business platforms and develop its local and cross-border businesses, including actively pushing forward integrated development and collaboration in the Guangdong-Hong Kong-Macao Greater Bay Area (the "Greater Bay Area") and promoting business development in Southeast Asia by expanding its cross-border services to address the banking needs of residents in the Greater Bay Area. The Group also strengthened its collaboration with BOC's entities in order to capture opportunities arising from the Belt and Road Initiative, the "Going Global" Chinese enterprises and large corporates in Southeast Asia and the development of the Greater Bay Area.

1.2 Background of the BOC Group

The Group's parent company, 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. The BOC Group (excluding the Group) provides a comprehensive range of corporate banking, personal banking, financial market services, investment banking, insurance and other services to its customers in the Mainland, Hong Kong, Macao, Taiwan as well as other countries and regions.

2. Background of the Continuing Connected Transactions

The Continuing Connected Transactions between the Group and the BOC Group are governed by the Services and Relationship Agreement and/or other specific agreements. Pursuant to the Services and Relationship Agreement, BOC has agreed to, and agreed 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 in connection with each of the Continuing Connected Transactions. The Company has also agreed to, and agreed to procure its subsidiaries to, enter into all arrangements on the same basis, provided that the rates offered by the Group to BOC and its associates will be no more favourable than those offered to independent third parties. The term of the Continuing Connected Transactions will be extended for additional three years commencing from 1 January 2020 up to 31 December 2022.

3. Investment and Referral Connected Transactions

3.1 *Securities transactions*

BOCI Securities is one of the leading brokerage firms in Hong Kong which provides securities brokerage services to the Group and its customers from time to time.

We understand from the Management that in the past three years, the Group executed all its securities-related transactions through two brokerage houses, being BOCI Securities 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 charged by the Group on its customers (subject to transaction type), to BOCI Securities. As advised by the Management, the percentage of commission shared by BOCI Securities is determined 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, which are considered by the Management to be in line with market practice.

As advised by the Management, in spite of the absence of securities transactions between the Group and the independent third parties since 2011, the Company would regularly review the terms of services agreements in respect of its securities transactions with BOCI Securities based on the prevailing market conditions, including but not limited to the stability of the overall brokerage market and brokerage fee charged to customers, in order to ensure the percentage of commission charged by BOCI Securities is in line with the prevailing market practice. The Management also advised that, in determining the commission, the Group has also considered the potential benefits and synergies that may be derived from its cooperation with the BOC Group. Based on our review of the service agreement between the Group and BOCI Securities and the past services agreements between the Group and independent third parties, we note that the percentage of commission charged by BOCI Securities are no less favourable than those offered by independent third parties. Considering the stability of the securities brokerage market over the past decades and given the BOC Group's long-term business relationship with the Group and its reputation and experience in the brokerage industry, we concur with the view of the Management that the percentage of commission charged by BOCI Securities in respect of securities transactions is in line with market practice, fair and reasonable and no less favourable than those offered by independent third parties.

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 (that is, the only connected person and non-subsidiary of the Group that provides securities brokerage services to the Group and its customers); (iii) two samples of past services agreements in relation to securities transactions with independent third parties which set out principal terms, including the relevant commission rate charged for securities brokerage services provided to the Group; and (iv) the Group's internal assessment showing that the terms of securities transactions entered into between the Group and BOCI Securities were in line with market practice and no less favourable than those offered by independent third parties in the past, and we understand from the Management that the relevant costs of securities transactions incurred by the Group were covered by the gross commission charged on its customers after a fixed portion of commission paid to BOCI Securities as securities brokerage services fee. After taking into account the foregoing, we concur with the Management that the percentage of commission shared by BOCI Securities is in line with market practice.

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

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

3.2 *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 the ordinary and usual course of its business.

Serving as an intermediary or referrer between the fund suppliers and the fund subscribers, the Group promotes and sells various fund products, including mandatory provident fund, guaranteed fund and open-ended fund, for a commission charged on the basis of a certain percentage of the subscription fee and management fee received by the fund suppliers (including BOCI-Prudential Asset Management) in relation to the funds. Such 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 various factors including but not limited to (i) changes in market environment; and (ii) the Group's relationship with individual fund suppliers. As advised by the Management, in determining the prevailing market rates in its transactions with BOCI-Prudential Asset Management, the Group generally makes reference to the fees and commissions offered by the independent fund suppliers for the provision of similar services. The agreed fee schedule is maintained and updated by the Group's Fund and Treasury Product Division in accordance with each of the distribution agreements entered into between the Group and the fund suppliers.

To support the Group's adherence to the stated internal mechanisms and as part of our assessment of the fund distribution transactions, we have obtained and reviewed 10 samples of distribution agreements entered into by the Group with BOCI-Prudential Asset Management as well as with the independent fund suppliers, which (i) set out the principal terms, including the relevant commission rates charged by the Group for our comparison; and (ii) cover not less than 25% of total number of distribution agreements currently in place as advised by the Management, which we consider to be sufficient and representative. Based on our review, we note that the range of commissions charged by the Group to BOCI-Prudential Asset Management was in line with the range of commissions charged by the Group to the independent fund suppliers for similar types and size of assets under management.

As part of the control procedures to ensure that terms of the transactions under the relevant distribution agreements entered into between the Group and BOCI-Prudential Asset Management are in line with the market or no less favourable than those with independent third parties, we understand from the Management that prior to entering into the relevant distribution agreements, it is the Group's practice to 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 transactions are executed 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 the Group has appropriate mechanisms in place to ensure the commissions charged by the Group are in line with market rates.

Having considered the factors set out above and based on our work performed, we are of the view that the Group's fund distribution transactions with BOCI-Prudential Asset Management are in the ordinary and usual course of its business and are conducted on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3.3 Insurance agency and insurance referral

(a) Provision of insurance agency services by the Group to BOCG Insurance and BOC Life

The Group, in its capacity as an intermediary, through the provision of insurance agency services to insurance companies (including BOCG Insurance and BOC Life), receives commission payments in respect of policies issued or renewed.

BOCG Insurance offers a broad range of general insurance products, including accident and health, property damage and general liability; and BOC Life offers a broad range of life insurance products, including endowments, annuities and whole-life protection plans. According to the statistics published by the Insurance Authority, BOCG Insurance had a market share of approximately 3.5% of Hong Kong's general insurance market and was ranked sixth largest general insurer in terms of overall gross premiums for general insurance in 2018; and BOC Life achieved a market share of approximately 9.5% of Hong Kong's long term insurance market and was ranked tenth largest long term insurer in terms of premiums for new life insurance for individuals in 2018.

As advised by the Management, we note that general insurance products can be customised and given 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 to be charged to a particular policy holder may be subject to the abovementioned factors, which would in turn affect the commission to be charged by the agent. Comparatively, life insurance products are more standardised. Furthermore, we note that all insurers (such as BOCG Insurance and BOC Life) and insurance intermediaries (such as the Group) in Hong Kong are regulated by the Insurance Authority.

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We have discussed with the Management and note that the terms of the insurance agency transactions are determined after arm's length negotiations and each of them has been entered into in accordance with the existing policy and rates set out in the relevant commission fee schedule of the insurance companies (including BOCG Insurance and BOC Life). In assessing the abovementioned insurance agency transactions, we have obtained and reviewed (i) four samples of insurance agency agreements entered into by the Group with BOCG Insurance, BOC Life and two independent insurance companies, representing all of the insurance agency agreements currently in place as advised by the Management, which set out, among others, the relevant terms and commission fee schedules for the provision of insurance agency services charged by the Group; and (ii) the Group's internal assessments showing that the commission rates charged by the Group to BOCG Insurance and BOC Life were in line with the market or no less favourable to the Group than those available to independent third parties with respect to the same insurance products.

As part of our assessment to satisfy ourselves that the terms of the transactions under the relevant insurance agency agreements entered into by the Group with BOCG Insurance and BOC Life are in line with the market or on terms no less favourable than those with independent third parties, we have enquired and were advised by the Management that prior to entering into the relevant insurance agency agreements, the Group would compare the market rates of comparable insurance agency transactions. The Group would also regularly review the transactions under the relevant insurance agency agreements to ensure such transactions are executed in line with the terms set out under the relevant insurance agency agreements and the commission fee schedules. Having considered the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has appropriate mechanisms in place to ensure the commission payments received by the Group are in line with market rates.

In addition to the commission payments received by the Group for the provision of insurance agency services, the Group receives a service fee from BOCG Insurance and BOC Life and independent insurance companies from time to time. As advised by the Management, BOCG Insurance and BOC Life may, according to business need, offer sales incentive and client promotion fees for the promotion activities carried out by the Group. These incentives are determined with reference to the payment terms and conditions offered by independent third parties to the Group.

With regard to the aforesaid service fee, we have enquired and were advised by the Management that such arrangement would allow the Group to make use of its well-established business relationship with the insurance companies (including BOCG Insurance and BOC Life) in order to expedite its insurance agency business. We have obtained and reviewed three samples of agreements entered into by the Group with BOCG Insurance and BOC Life as well as with an independent insurance company in relation to a marketing campaign carried out by the Group, which set out principal terms, including sales incentive and client promotion fees payable and the conditions thereto. Based on our review, we note that the terms offered by BOCG Insurance and BOC Life to the Group were comparable to or no less favourable than those offered by the independent insurance company. After taking into account the foregoing, we concur with the Management that such transactions are conducted on normal commercial terms and are in line with market practice.

(b) Provision of insurance referral services by the Group to BOC Life and BOCI Private Wealth Management Limited

i. BOC Life

The Group provides insurance referrals of corporate clients to BOC Life and receives referral fees from BOC Life in respect of the policies issued to or renewed by the clients.

In conjunction with the provision of insurance referral services, the Group pays BOC Life service fees for the sales and administration services provided by BOC Life on the relevant policies issued or renewed, which include, as advised by the Management, preparing monthly report and conducting annual policy review, etc. Such service fee is charged at 5% of the referral fee payable to the Group.

We understand from the Management that the rate of referral fees (after deducting the abovementioned service fees) charged by the Group is similar to the rate of commissions charged by the Group for the provision of insurance agency services to BOC Life as described in section 3.3(a) with respect to the same insurance products.

We have discussed with the Management and note that the terms of the insurance referral transactions are determined after arm's length negotiations and each of them has been entered

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into in accordance with the existing policy and rates set out in the relevant referral fee schedule of BOC Life. In assessing the abovementioned insurance referral transactions, we have obtained and reviewed the insurance referral agreement with BOC Life, which, as advised by the Management, is the only insurance referral agreement with insurance company currently in place and includes, among others, the relevant terms and referral fee schedule for the provision of insurance referral services charged by the Group. Given that there is no comparable transaction with independent insurance companies, we have compared the rate of referral fees to the rate of commissions as specified in the commission fee schedule under the insurance agency agreement with BOC Life, and we concur with the Management that the rate of referral fees (after deducting the abovementioned service fees) charged by the Group is similar to the rate of commissions charged by the Group for the provision of insurance agency services to BOC Life with respect to the same insurance products, and hence, such insurance referral transactions are conducted on normal commercial terms and not prejudicial to the interests of the Company and the Shareholders as a whole.

ii. BOCI Private Wealth Management Limited

The Group intends to provide insurance referrals of private banking clients to BOCI Private Wealth Management Limited and shall receive referral fees from BOCI Private Wealth Management Limited for the referral services to be provided. As advised by the Management, the Group currently provides insurance referrals of private banking clients to independent insurance brokerage firms and the Group intends to charge for the insurance referral services to BOCI Private Wealth Management Limited at a rate that is no less favourable to the Group than those available to independent third parties.

As advised by the Management, the insurance referral agreement with BOCI Private Wealth Management Limited is still under negotiation and no definitive terms have been concluded as at the Latest Practicable Date.

As part of our independent work, we have reviewed the Services and Relationship Agreement, which governs all transactions between the Group and the BOC Group and it clearly stated that the Group shall exercise all powers vested in it to procure each member of the Group shall ensure that any transaction is entered into with any member of the BOC Group in the ordinary course of business, on normal commercial terms, and at market rates or rates no less favourable to the Group than those available to independent third parties. In other words, the terms to be offered by the Group to BOCI Private Wealth Management Limited will be determined in accordance with the pricing policy under the Services and Relationship Agreement, which we considered to be fair and reasonable so far as the Independent Shareholders are concerned.

In respect of the abovementioned insurance referral services provided or to be provided by the Group, we understand from the Management that the transactions under the relevant referral agreements are reviewed regularly according to the internal guidance of the Group with respect to continuing connected transactions, and the eligibility of the referral business partners are also reviewed regularly according to the internal manual on selecting business partners. With a view to ensuring that the terms under relevant insurance referral agreements to be entered are at market rate or rate no less favourable than those available to independent third parties, we understand from the Management that the terms of insurance referral transactions shall be reviewed by the Group prior to the entering into of the relevant insurance referral agreements in accordance with the pricing policy under the Services and Relationship Agreement. Having considered the internal control measures adopted by the Group, we concur with the Management that the Group has appropriate mechanisms in place to ensure the terms of insurance referral agreements with connected persons, including the referral fees received by the Group, are on normal commercial terms and at rates no less favourable to the Group than those available to independent third parties.

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

3.4 *Investment products transactions*

In the ordinary and usual course of business, the Group may from time to time enter into investment products transactions with the BOC Group, whereby the BOC Group, as an investor, subscribes for investment products of which the Group acts as the fund manager or the issuer. These investment products include open-ended or close-ended public or private funds, etc.

The Group derives management fees (as appropriate) and the relevant rates of management fees (including performance fee and other applicable fees) for each investment product would be based on, among others, the size and nature of the investment products and market practice.

In respect of the investment products managed or issued by the Group, we have obtained and reviewed five fund memorandums, which cover not less than 80% of total number of investment products that the Group currently acts as the fund manager or the issuer as advised by the Management. Under these fund

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memorandums, the rates of management fees charged to all investors (including the BOC Group) were determined according to prevailing market practice, and we note that the rates of management fees charged by the Group to the BOC Group were no less favourable than those charged to independent third party investors.

In determining the pricing of subscription and redemption of the fund units by investors (including the investment products managed or issued by the Group and the BOC Group), we understand from the Management that the relevant price per fund unit is published and determined by the fund administrator, being BOCI-Prudential Trustee, which is applicable to all investors for the same fund units (including the BOC Group, the Group and independent third party investors). We have obtained and reviewed eight samples of weekly reports on investment products prepared by the fund administrator, which set out, among others, the then net asset value of the investment products and the relevant price per fund unit applicable to all investors, and note that the terms of the Group's subscription and redemption of investment products transacted with the BOC Group are uniform among all investors and are therefore considered to be on normal commercial terms and in line with market practice.

Based on the aforesaid commercial practices adopted by the Group and the documentations we have reviewed, we concur with the Management that the Group's rate of management fee and the pricing of subscription and redemption of investment products in connection with the aforesaid investment products transactions with the BOC Group are no less favourable than those with independent third party investors.

With a view to facilitating business development, the Group intends to enter into investment products transactions with the BOC Group, whereby the Group, as an investor, subscribes for investment products of which the BOC Group acts as the fund manager or issuer. As advised by the Management, the terms (including the rates of management fee, performance fee and other applicable fees, and the pricing of subscription and redemption of investment products) of such transactions will be determined according to market practice and will be made on normal commercial terms (or terms no less favourable to the Group than those available from independent third parties).

As at the Latest Practicable Date, no such investment products transactions have been entered into between the Group and the BOC Group.

As part of our independent work, we have reviewed the Services and Relationship Agreement, which governs all transactions between the Group and the BOC Group and it clearly stated that the BOC Group shall exercise all powers vested in it to procure each member of the BOC Group shall ensure that any transaction is entered into with any member of the Group in the ordinary course of business, on normal commercial terms, and at market rates or rates no less favourable to the Group than those offered by independent third parties. In other words, the terms to be offered by the BOC Group will be determined in accordance with the pricing policy under the Services and Relationship Agreement, which we considered to be fair and reasonable so far as the Independent Shareholders are concerned.

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

3.5 Asset management and referral services

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

For the Group's provision of asset management services to its clients (including the BOC Group), we understand from the Management that the Group receives a management fee, which is determined based on a number of factors, including but not limited to, the background of the client, length of business relationship with the Group, and the amount of assets under the Group's management. The Management advised that the Group also maintains contacts with its peers in the industry to keep abreast of the latest rates offered in the market. In this connection, we have obtained and reviewed four samples of asset management agreements entered into by the Group with the BOC Group and each of the independent third parties, which (i) set out the principal terms, including the relevant rates of management fees charged by the Group; and (ii) cover not less than 30% of total number of asset management agreements currently in place as advised by the Management. We have also obtained and reviewed the Group's corresponding internal assessments showing that the relevant rates of management fees charged by the Group to the BOC Group were in line with market practice and the relevant costs of the asset management transactions incurred by the Group were covered

by the management fees charged to the BOC Group. Based on our review, we note that the rates of management fees charged by the Group to the BOC Group for each asset class as specified in the asset management agreement were in line with market practice and no less favourable than those available to independent third parties.

In respect of the client referrals by the BOC Group to the Group for the provision of asset management services and account opening services, we understand from the Management that the Group shares a percentage of management fee charged by it with the BOC Group where such client referrals materialise into a new business for the Group. The Management also advised that the relevant business unit of the Group determines the percentage of management fee on the above basis, and reports detailed information on the transactions to the Independent Unit for review before entering into any specific contracts. In this connection, we have obtained and reviewed four samples of referral agreements entered into by the Group with the BOC Group and each of the independent third parties, which (i) set out the principal terms, including the percentage share of management fee charged to the Group; and (ii) cover not less than 80% of total number of referral agreements currently in place as advised by the Management. Based on our review, we note that the percentage share of management fee with the BOC Group is based on the resources and efforts contributed by the parties, which is in line with market practice and on terms no less favourable to the Group than those available from independent third parties.

Based on the aforesaid commercial practices adopted by the Group and the documentations we have reviewed, we concur with the Management that the Group's rate of management fee and the percentage share of management fee in connection with the aforesaid asset management and referral services transactions with the BOC Group are no less favourable than those with independent third parties.

Having considered the factors set out above and based on our work performed, we are of the view that the Group's asset management and referral services transactions with the BOC Group are in the ordinary and usual course of its business and are conducted on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4. Inter-bank Connected Transactions

4.1 Foreign exchange transactions

(a) Inter-bank foreign exchange services

In the ordinary and usual course of business, the Group enters into foreign exchange transactions with the BOC Group as well as independent third parties from time to time. Foreign exchange transactions include spot, forward, swap, currency options and foreign currency bank-note exchange transactions. The Management advised that these transactions are entered into primarily for the purpose of foreign exchange risk management and in response to customer-driven transactions.

The Group also enters into foreign exchange business arrangement with the BOC Group to derive trading income arising from the price difference between onshore and offshore RMB market. Without prejudice to China's regulatory requirements on RMB market, BOCHK (a subsidiary of the Company) seeks to serve possible business opportunities arising from such price differences and provides offshore RMB price quoting services to BOC Mainland branches of the BOC Group. On top of such BOCHK's price, BOC Mainland branches would add on mark-up to their end clients. The trading income generated by BOCHK would be the price difference between its trading cost and the quoted price to BOC Mainland branches, whereas BOC Mainland branches earn income from the price difference between the BOCHK quoted price and the price offered to the end clients. For foreign exchange forward transactions under this business arrangement, we understand from the Management that the Group derives an extra trading income by sharing a percentage of the BOC Mainland branches' mark-up to their end clients, and such extra income sharing is not available with independent third parties. We have obtained and reviewed 17 agreements of foreign exchange forward transactions with each of the BOC Mainland branches and the independent third parties, and note that the terms of the foreign exchange forward transactions (including the percentage share of income) with BOC Mainland branches are no less favourable to the Group than terms available from independent third parties.

We understand from the Management that the price of the abovementioned foreign exchange transactions is determined based on the prevailing market practice and conditions, the price quotes of trade products from other financial institutions/liquidity providers available in the market and/or various risk management requirements of the Group. The Group earns trading income from price differences in its foreign exchange trades with its customers or inter-bank counterparties (including the BOC Group).

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Based on our discussion with the Management, we note that the Group typically executes the aforementioned foreign exchange transactions within a short time frame, subject to the prevailing market conditions. These foreign exchange transactions are processed through a centralised system (except foreign currency bank-note 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 prices of all foreign exchange transactions are monitored by the General Accounting & Accounting Policy Department of the Group. Having considered the abovementioned well-established review and control measures adopted by the Group, we concur with the Management that the Group has appropriate mechanisms in place to ensure the foreign exchange transactions are executed at the prevailing market rates.

As part of our assessment to satisfy ourselves that the foreign exchange transactions with the BOC Group are executed at the prevailing market rates, we have obtained and reviewed 26 samples of foreign exchange transactions entered into between (i) the Group and the BOC Group; and (ii) the Group and independent financial institutions/liquidity providers, which include (a) the transaction records setting out the type and price of trade products; and (b) the corresponding daily check-in records prepared by the General Accounting & Accounting Policy Department of the Group showing that these transactions were carried out within the range of market rates. We have also compared the rates of the aforesaid foreign exchange transactions entered into between the Group and the BOC Group with the relevant market rates as quoted from Bloomberg and did not note any significant deviations. Based on the above, we consider that the Group's foreign exchange transactions with the BOC Group are made on normal commercial terms and on terms that are in line with market practice.

In view of the nature of foreign exchange transactions for which the price or rate adopted is 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 and representative to support our abovementioned conclusion.

(b) Cross-border customer referral business

As stated in the Letter from the Board, BOCHK sets up the Cross-border Referral Model with BOC Mainland branches on the joint marketing scheme to BOC Mainland branches' clients. We understand from the Management that such customer referral businesses are conducted only with the BOC Group which are not available with independent third parties. As advised by the Management, under the Cross-border Referral Model, the BOC Group is mainly responsible for, including but not limited to, initiating marketing campaign, identifying customer needs and providing preliminary solutions with the aim of referring business opportunities to the Group, while the Group is mainly responsible for providing a series of financial and banking services to the clients referred by the BOC Group, including but not limited to, account opening services and foreign exchange transactions services, and both parties are responsible for carrying out marketing and maintaining client relationship. We have obtained and reviewed (i) the customer referral agreement entered into between the Group and the BOC Group and the transactions contemplated thereunder; and (ii) the Group's internal assessment showing that the terms of the customer referral agreement were on normal commercial terms and the income split percentages shared between the Group and the BOC Group are negotiated on arm's length basis according to their respective assessments on the resources and efforts contributed by the parties and the benefits that can be attained under such referral arrangement, including but not limited to the new clients and new business opportunities brought about by the cooperation. Based on our review, we understand that the relevant costs incurred by the Group for the aforementioned services, including but not limited to labour cost, marketing cost and other cost for conducting foreign exchange transactions, were covered by the income generated under this model, which is in line with the Group's pricing principle as set out in the internal guidance on continuing connected transactions. The Management also advised that, before entering into any specific contracts in respect of the transactions conducted under the Cross-border Referral Model, the relevant business unit reports detailed information on the transactions (including the split percentage of earning shared between the parties) to the Independent Unit for review. As such, we consider that the Group's cross-border customer referral transactions with the BOC Group are made on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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

4.2 *Derivatives transactions*

In the ordinary and usual course of business, the Group enters into over-the-counter and on-exchange derivatives transactions with clients and inter-bank counterparties. Such derivatives transactions mainly consist of, among others, foreign exchange derivatives, commodity, equity and interest rate derivatives products, such as interest rate swaps, cross currency interest rate swaps, foreign exchange options, bond options, equity derivatives, credit derivatives, commodity derivatives and others.

We understand from the Management that the abovementioned transactions are executed with reference to the prevailing market price and are entered into for various reasons, including (i) allowing the 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 (ii) meeting the need of their customer-driven business. The price of derivatives transactions is determined based on the prevailing market practice and conditions, the price quotes from independent third parties available in the market and/or various risk management requirements of the Group. The Group earns trading income from price differences in its trades with its customers or inter-bank counterparties (including the BOC Group), and the mark-to-market gains/losses of all outstanding contracts.

Based on 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 processes the derivatives 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 derivatives transactions are executed at the prevailing market rates, the executed prices of all derivatives transactions are monitored by the General Accounting & Accounting Policy Department of the Group. Having considered the abovementioned well-established review and control measures adopted by the Group, we concur with the Management that the Group has appropriate mechanisms in place to ensure the derivatives transactions are executed at the prevailing market rates.

We have obtained and reviewed 24 samples of derivatives transactions entered into between (i) the Group and the BOC Group; and (ii) the Group and independent third parties, which include (a) the transaction records setting out the type and price of trade products; and (b) the corresponding daily check-in records prepared by the General Accounting & Accounting Policy Department of the Group showing that these transactions were carried out within the range of market rates. Based on the above, we consider that the Group's derivatives transactions with the BOC Group are made on normal commercial terms and on terms that are in line with market practice.

In view of the nature of derivatives transactions for which the price or rate adopted is 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 and representative 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 Group's derivatives transactions are in the ordinary and usual course of its business and are conducted on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4.3 *Trading of financial assets*

In the ordinary and usual course of business, the Group enters 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, forfaiting and other similar types of financial assets. The Management advised that these transactions are entered into primarily for the purpose of risk management of assets and maintaining adequate liquidity level.

Based on our discussion with the Management, we understand that these transactions are executed with reference to prevailing market rates, and where prevailing market rates are not applicable, the terms of the transactions are determined with reference to comparable transactions entered into with independent financial institutions. As advised by the Management, the prevailing market rates are determined by reference to a number of factors, including but not limited to the Group's funding cost, the obligor's credit rating and the prevailing market conditions, and the pricing strategies are equally applied to all entities with which the Group conducts similar transactions (including the BOC Group and independent third parties). In assessing the trading of financial assets transactions, we have obtained and reviewed 24 samples of transaction records and relevant agreements entered into by the Group, which set out, among others, the type and price of the transactions. Based on our review of the transactions between the Group and BOC, as compared with those between the Group and independent financial institutions, we note that the terms of the trading of financial assets transactions between the Group and BOC were no less favourable than those available to or from independent financial institutions.

The Management advised 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 with BOC are all executed with reference to the prevailing market rates offered by other financial institutions or on terms that are no less favourable than those available to or from independent third parties. Based on the abovementioned control measures adopted by the Group, we concur with the Management that the Group has appropriate mechanisms in place to ensure the trading of financial assets transactions are executed at the prevailing market rates or fair reference prices.

Considering the nature of trading of financial assets transactions for which the price or rate adopted is 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 and representative 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 Group's trading of financial assets transactions are in the ordinary and usual course of its business and are made on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

4.4 *Inter-bank capital markets*

In the ordinary and usual course of business, the Group buys and sells debt securities (issued by the BOC Group or independent third parties) from and to the BOC Group in the primary and secondary markets with reference to prevailing market rates 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 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; the Group is therefore obliged to quote price upon requests by other financial institutions (including the BOC Group) and to trade at the quoted price (if the price quoted is accepted by the counterparty). As such, the Group participates actively in the market to maintain the liquidity of the said instruments.

Based on our discussion with the Management, we understand that the terms of the inter-bank capital markets transactions are determined with reference to prevailing market rates, and where prevailing market rates are not applicable, the terms of the transactions are determined with reference to comparable transactions entered into with independent financial institutions. In assessing the inter-bank capital markets transactions, we have obtained and reviewed 26 samples of transactions entered into between (i) the Group and BOC; and (ii) the Group and each of the independent financial institutions, which include the principal terms such as type of instruments and rate of such transactions. Based on our review of the transactions between the Group and BOC, as compared with those between the Group and independent financial institutions, we note that the rates of the inter-bank capital markets transactions between the Group and BOC were in line with the then prevailing market rates and the principal terms (including payment terms) of such transactions with BOC were no less favourable than those with independent financial institutions.

The Management advised that the Group's risk management unit monitors and reviews the terms of the inter-bank capital markets transactions to ensure the inter-bank capital markets transactions with BOC are all executed with reference to the prevailing market rates offered by other financial institutions or on terms that are no less favourable than those available to or from independent third parties. Based on the abovementioned control measures adopted by the Group, we concur with the Management that the Group has appropriate mechanisms in place to ensure the inter-bank capital markets transactions are executed at the prevailing market rates.

Considering the nature of inter-bank capital markets transactions for which the price or rate adopted is 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 and representative 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 Group's inter-bank capital markets transactions are in the ordinary and usual course of its business and are made on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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5. New Caps

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

<i>Amount in HK\$ million</i>	Historical Caps			New Caps		
	2017	2018	2019	2020	2021	2022
For the year ended/ending 31 December						
<u>Investment and Referral Connected Transactions</u>						
Securities transactions	4,500	7,000	10,000	5,000	7,000	10,000
Fund distribution transactions	4,500	7,000	10,000	5,000	7,000	10,000
Insurance agency and insurance referral	4,500	7,000	10,000	5,000	7,000	10,000
Investment products transactions	150,000	250,000	350,000	200,000	250,000	350,000
Asset management and referral services	4,500	7,000	10,000	5,000	7,000	10,000
<u>Inter-bank Connected Transactions</u>						
Foreign exchange transactions	4,500	7,000	10,000	5,000	7,000	10,000
Derivatives transactions	4,500	7,000	10,000	5,000	7,000	10,000
Trading of financial assets	150,000	250,000	350,000	200,000	250,000	350,000
Inter-bank capital markets	150,000	250,000	350,000	200,000	250,000	350,000

In assessing the fairness and reasonableness 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 and Referral Connected Transactions and the Inter-bank Connected Transactions:

<i>Amount in HK\$ million</i>	2017			2018			2019		
	Historical amount	Annual cap	Utilisation %	Historical amount	Annual cap	Utilisation %	Annualised utilisation amount (Note 1)	Annual cap	Estimated utilisation %
For the year ended 31 December									
<u>Investment and Referral Connected Transactions</u>									
Securities transactions	238	4,500	5.3%	247	7,000	3.5%	182	10,000	1.8%
Fund distribution transactions	32	4,500	0.7%	30	7,000	0.4%	26	10,000	0.3%
Insurance agency and insurance referral	878	4,500	19.5%	1,036	7,000	14.8%	1,162	10,000	11.6%
Investment products transactions (Note 3)	1,422	150,000	1.0%	1,314	250,000	0.5%	818	350,000	0.2%
Asset management and referral services (Note 3)	80	4,500	1.8%	58	7,000	0.8%	55	10,000	0.6%
<u>Inter-bank Connected Transactions</u>									
Foreign exchange transactions (Note 2)	105	4,500	2.3%	384	7,000	5.5%	817	10,000	8.2%
Derivatives transactions (Note 2)	57	4,500	1.3%	1	7,000	0.0%	1,329	10,000	13.3%
Trading of financial assets (Note 3)	25,025	150,000	16.7%	13,651	250,000	5.5%	15,659	350,000	4.5%
Inter-bank capital markets (Note 3)	13,409	150,000	8.9%	7,539	250,000	3.0%	11,869	350,000	3.4%

Notes:

- (1) As the annualised figures are calculated based on the historical transaction amounts for the eight months ended 31 August 2019, the actual transaction amounts for the year ended 31 December 2019 may differ significantly from the annualised figures.
- (2) The absolute value of the historical amount has been adopted.
- (3) For the avoidance of doubt, the amounts paid and received by the Group are not netted for the purpose of calculating the historical amounts and the New Caps.

i. Historical cap utilisation in relation to the Investment and Referral 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, insurance agency and insurance referral, investment products, and asset management and referral services transactions was (i) approximately 5.3%, 0.7%, 19.5%, 1.0% and 1.8% for the year ended 31 December 2017, respectively; and (ii) approximately 3.5%, 0.4%, 14.8%, 0.5% and 0.8% for the year ended 31 December 2018, respectively.

We understand from the Management that securities, fund distribution, investment products and asset management and referral services transactions are generally initiated by customers or driven by the customers' decisions according to their own portfolio, which are beyond the Group's control and are not possible to anticipate. We further understand from the Management that the aforementioned low utilisation of the historical annual caps in the current three-year period may be attributable to one or more of the following reasons: (i) the decrease in trading turnover of the Hong Kong stock market; (ii) the decrease in amount of funds raised in Hong Kong's securities capital market; and (iii) a precautionary buffer established with the intention to weather any significant and unexpected changes in the global financial market.

According to statistics published on the website of the Stock Exchange, (i) the daily average trading turnover of the Hong Kong stock market was approximately HK\$146.1 billion, HK\$106.8 billion, HK\$91.9 billion, HK\$85.7 billion, HK\$101.1 billion and HK\$94.7 billion for the first, second, third and fourth quarters of 2018 and the first and second quarters of 2019, respectively; and (ii) the amount of funds raised in Hong Kong's securities market (including initial public offering) was approximately HK\$544.1 billion for the year ended 31 December 2018, as compared with HK\$581.4 billion for the year ended 31 December 2017. These downtrends in equity market activities were not conducive to better utilisation of the relevant historical annual caps thus far.

In connection with the insurance agency and insurance referral transactions, these transactions are primarily driven by customers' demand for insurance, of which the Group has no control over the volume and amounts. We have enquired and were advised by the Management that the low historical utilisation of insurance agency transactions caps was attributable to, among others, the lower growth rate recorded by Hong Kong insurance market in 2017 and 2018 than prior years. According to the Insurance Authority, the total gross premiums for insurance business in Hong Kong recorded year-on-year increase of approximately 13.3%, 10.3%, 20.7%, 8.3% and 8.6% in 2014, 2015, 2016, 2017 and 2018, respectively. Notwithstanding the above general decline in growth momentum, the Management is optimistic about the organic growth of the Hong Kong insurance market in the foreseeable future.

ii. Historical cap utilisation in relation to the Inter-bank Connected Transactions

According to the table above, we note that the utilisation of historical annual caps of each of the foreign exchange, derivatives, trading of financial assets and inter-bank capital markets transactions was (i) approximately 2.3%, 1.3%, 16.7% and 8.9%, respectively, for the year ended 31 December 2017; and (ii) approximately 5.5%, 0.0%, 5.5% and 3.0%, respectively, for the year ended 31 December 2018.

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 beyond the Group's control, 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 caps and derivatives transactions caps was attributable to (a) the lower than expected growth of international trades over the past few years as international trade tensions persist; and (b) a precautionary buffer established with the intention to weather any significant and unexpected changes in the global financial market.

Going forward, the Management expects the volume of the foreign exchange transactions and derivatives transactions to remain volatile. According to statistics set out in the "Triennial Central Bank Survey of foreign exchange and OTC derivatives markets in 2019" published by the Bank of International Settlements, (i) trading in foreign exchange markets decreased slightly from a daily average of US\$5.4 trillion in April 2013 to US\$5.1 trillion in April 2016 and recovered to US\$6.6 trillion in April 2019, and (ii) trading in OTC (over-the-counter) interest rate derivatives markets increased markedly from a daily average of US\$2.3 trillion in April 2013 to US\$2.7 trillion in April 2016 and then further increased to US\$6.5 trillion in April 2019. Having considered these general uptrends and that

approximately 88.3% of trades being settled in US dollars in April 2019 according to the aforesaid survey, the Management believes that demand for US dollars related foreign exchange transactions will remain active. In addition, RMB, being the eighth most actively traded currency in the first half of 2019, with a modest but competitive share of approximately 4.3% in global foreign exchange by volume, has significant growth potential.

The Management advised that the trading of financial assets transactions are entered into primarily for the purpose of risk management of assets and maintaining adequate liquidity level. However, should the relevant transaction amount exceed its annual cap, the Group will be required to seek approval for the revision of the relevant annual cap. In the meantime, the inability to conduct the trading of financial assets transactions could cause significant business disruption and hinder the risk management capability of the Group.

The inter-bank capital markets transactions involve exchange fund bills 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 the 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 low historical utilisation of the inter-bank capital markets transactions caps was attributable to, among others, (i) the demand being driven by customers; and (ii) a precautionary buffer established to weather any significant and unexpected increase in demand of transactions including the aforementioned market-making obligation in exchange fund bills and notes.

iii. Inherent difficulties in annual caps estimations

We understand from our discussion with the Management that as the Continuing Connected Transactions are primarily market-driven, the volume and aggregate value of each of the Continuing Connected Transactions vary from time to time and are dependent on external factors (including fluctuations in the financial markets, economic conditions or changes in government policies/measures) which are not within the control of the Group. As such, there are inherent difficulties in accurately estimating the relevant caps. Furthermore, the Group in the past sustained business disruptions caused by breach in annual cap levels which were not sufficient to cater its actual business volume.

Shareholders should also note that the economy of Hong Kong is currently affected by growing uncertainties with internal social unrest as well as external uncertainties associated with the US-China trade negotiations. These developments have adversely impacted the business conditions, economy and financial services activities in Hong Kong generally. We understand from the Management that the Group is monitoring the ongoing developments very closely. Going forward, the Hong Kong economy would continue to be susceptible to the challenges, opportunities and impacts from any internal and external developments as well as any government initiatives, new policies or measures.

In this regard, we agree with the Management that it would not be prudent to scale back the limits of the New Caps solely by virtue of their low historical utilisation levels. In the following sections 5.2 and 5.3, we shall examine certain specific ongoing developments which underpin the determination of the limits under the New Caps.

5.2 Outlook of business expansion of the Group

In determining the New Caps, the Management has considered the planned expansion and growth potential of the Group's business, the co-operation activities with the BOC Group, as well as possible introduction of new financial services and products.

As disclosed in the 2019 Interim Report, the Group is continuing with its business focuses on ensuring a balanced and sustainable business development and capturing new opportunities arising from the implementation of the Belt and Road Initiative, the internationalisation of the RMB, and the increasing policy support in the Greater Bay Area.

The Board also considers that the Southeast Asia market has a remarkable development potential, given that the region is a core geography in China's Belt and Road Initiative, an important market for RMB internationalisation and a target region for Chinese enterprises' "Going Global" efforts. In the first half of 2019, the Group has successfully completed the acquisition of the Laos Business of BOC and BOCHK has developed into a regional bank with operating entities in eight Southeast Asian countries, including Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia, Laos and Brunei.

In the Greater Bay Area, the Group introduced “Greater Bay Area Service Connect” to provide mutual service access to wealth management customers in Guangdong, Hong Kong and Macao as a result of the promotion of integrated development and collaboration in the Greater Bay Area. In the first half of 2019, new impetus for the development of the Group’s credit card and payment businesses emerged from the rapid development of the Greater Bay Area and the booming mobile payment market in Hong Kong. BOCHK is the first bank in Hong Kong to launch a Chinese mainland personal account opening attestation service which allows Hong Kong residents to open Chinese mainland personal accounts without having to travel to the Mainland and the BoC Pay mobile application’s cross-border retail payment function also allows Hong Kong people to make payments across the Greater Bay Area.

The first half of 2019 also witnessed important developments, and offshore RMB business in Hong Kong maintained steady development, with a series of capital account liberalisation and RMB internationalisation measures being introduced and implemented in an orderly manner, which included the removal of shareholding limits from foreign investors and total asset requirements and the relaxation of the same with regard to securities houses, fund management firms, futures companies and life insurers. There was also further expansion and improvement of the connections between Hong Kong and China stock markets, as well as gradual progress in the opening-up of the exchange-listed bond market and futures market. Meanwhile, MSCI Inc. carried out the phased expansion of the weighting of China’s A shares in the MSCI index, while Chinese onshore bonds were included in the Bloomberg Barclays Global Aggregate Index. The Management believes that these measures opened up new business opportunities for the financial industry in Hong Kong and further promoted the healthy development of offshore RMB markets.

In conclusion, the Management expects the Group will continue to grow its international RMB service offering through strengthening its co-operation relationship with the BOC Group but, at the same time, is mindful that the unexpected changes in local and global economic conditions would pose uncertainties on the potential business growth of the Group.

5.3 Recent developments of the RMB and the economies in the Mainland and Hong Kong

In October 2016, the RMB became 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. 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, the figures published by the National Bureau of Statistics of China indicated that China’s gross domestic products (the “**GDP**”) growth has slowed to 6.0% in the third quarter of 2019 from the growth rate of 6.2% and 6.4% recorded in each of the preceding two quarters. Consumption remained the largest contributor to China’s GDP growth in the first three quarters of 2019, contributing 60.5% of the economic growth. According to the data published by the PBOC, China’s foreign exchange reserves, which are the largest in the world, increased from US\$3.073 trillion in December 2018 to US\$3.096 trillion in November 2019.

In respect of the Hong Kong economy, we noted from the Third Quarter Economic Report 2019 published by the Office of the Government Economist Financial Secretary’s Office of the Government of the Hong Kong Special Administrative Region, that the Hong Kong economy contracted by 2.9% year-on-year in the third quarter of 2019, representing an abrupt deterioration from its mild growth of 0.4% in the preceding quarter. The local social incidents took a heavy toll on consumption-and tourism-related sectors, dealing a very severe blow to an economy which had already been weakened by a synchronised global economic slowdown and escalated US-China trade tensions. On a seasonally adjusted quarter-to-quarter comparison, the economy contracted significantly by 3.2% in the third quarter, having shrunk by 0.5% in the preceding quarter. Thus the economy has entered a technical recession in the third quarter, the first time since 2009.

Total exports of goods registered an enlarged year-on-year decline in real terms in the third quarter of 2019, reflecting the further slackening of manufacturing and trading activities worldwide. Exports of services deteriorated sharply to mark the biggest year-on-year drop since the second quarter of 2003, with inbound tourism suffering a severe setback. Other services exports also declined by varying extents amid softening global economic growth and shrinking trade flows. Private consumption expenditure weakened sharply to record its first year-on-year decline in more than 10 years, as the local social incidents caused serious disruptions to consumption-related activities and subdued economic prospects weighed on consumer sentiment. The decline in overall investment expenditure steepened. Machinery and equipment acquisition plunged amid very pessimistic business sentiment, while building and construction activities fell further.

Notwithstanding the aforementioned decelerating economic growth momentum in Hong Kong, its financial and banking systems remain sound and robust. 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

November 2019, Hong Kong was the Mainland's fourth largest trading partner (after the US, Japan and South Korea) in 2018, and bilateral trade between the Mainland and Hong Kong amounted to approximately US\$310.6 billion (6.7% of the Mainland's total external trade) in 2018, of which exports from the Mainland to Hong Kong stood at approximately US\$302.1 billion, making Hong Kong the second largest export market.

On 5 July 2019, Guangdong issued two key strategy documents relating to the Greater Bay Area – the *Implementation Plan for the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area*, and the *Three-Year Action Plan for Building the Guangdong-Hong Kong-Macao Greater Bay Area (2018-2020)*, which propose the implementation of 100 key measures across nine areas, including optimising and upgrading the environment of the Greater Bay Area's four core cities, establishing an international science and technology innovation centre and maintaining a state-of-the-art infrastructure base.

As set out in the "Half Yearly Monetary and Financial Stability Report" published by the HKMA in September 2019, with the escalation of the US-China trade conflict, the offshore (CNH) and the onshore (CNY) RMB faced depreciation pressure since early May and in early August, the CNY exchange rate fell past 7 against the US dollar. The spread between CNY and CNH widened occasionally over this period, but remained moderate by historical standards. Although the development of the offshore RMB market will continue to be affected by the external headwinds, particularly the lingering US-China trade conflict, the progress of the Mainland's capital account liberalisation, the increase of RMB assets allocation by international investors, and enhanced regional economic and financial co-operation under the Belt and Road Initiative and the Greater Bay Area initiatives are expected to offer continued support to the offshore RMB business. The Hong Kong equity market was largely driven by the ebb and flow of the US-China trade tensions during 2019, while cushioned by strong signals from leading central banks to ease monetary policy. The Hong Kong dollar debt market expanded mildly and the offshore RMB debt market showed a rebound in issuance amid elevated volatility in global bond markets.

On this basis, the Management believes that trade exchanges between the Mainland and Hong Kong will remain extensive and that Chinese government policies, and the Belt and Road Initiative and the Greater Bay Area initiatives are 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 the BOC Group.

5.4 *Rationales underpinning the determination of the New Caps*

We note that the proposed New Caps are arrived at by adopting broadly the same principles as those used in the determination of the approved annual cap limits for the three financial years ended 31 December 2019 and for the preceding three-year period. That is to say, the first-year cap limit for the year ending 31 December 2020 is based on (i) 5% of the latest available revenue or total assets of the Group (in this case using the actual amounts for the year ended 31 December 2018), (ii) applying an average 5-year historical growth rate (of 5.8% and 7.7% in terms of revenue and total assets of the Group respectively) to arrive at a theoretical cap limit for the year ended 31 December 2019, and (iii) an estimated minimum growth rate of 30% to project the required annual cap for the year ending 31 December 2020.

In respect of the annual cap limits for the next two financial years ending 31 December 2021 and 2022 respectively, the Management has allowed for annual growth rates of between approximately 25% and 43% (or "**Annual Increment Growth Rates**"), which are lower than the annual growth rates of between approximately 40% and 67% used in the approved cap limits for the years ended 31 December 2018 and 2019 respectively.

Given the inherent nature of business and economic uncertainties, and particularly in light of the pressures inflicted on the Hong Kong economy by social events in recent months, there is no way any one can unequivocally project future growth rate with a high degree of accuracy. However, having considered the abovementioned average 5-year historical growth rates in arriving at the theoretical cap limit for 2019 were derived from year-on-year growth rates ranging from -8.1% to +23.4% in terms of revenue and ranging from -0.5% to +12.3% in terms of total assets of the Group, we consider it is not unfair or unreasonable to accept a growth rate of 30% for 2020 which allows for a degree of rebound (if indeed materialised) from the depressed state of the economy, and thereafter growth rates between 25% and 43% for the ensuing two years, depending on the speed and timing of economic recovery in Hong Kong and development of the Greater Bay Area.

As shown in section 5.1 above, for the periods covering the two years ended 31 December 2018 and the eight months ended 31 August 2019, actual cap utilization levels have been substantially below the relevant approved cap limits. This low utilisation pattern was also evident in the three years ended 31 December 2016.

Despite these low historical utilisation levels, the Management considers it appropriate to set the New Caps with the view to providing ample headroom to weather any significant and unexpected increase in market activities driven by any unforeseen market forces and developments. In doing so, the Management is adopting a cautious stance to minimise the risk of future business disruptions or suspensions with connected persons as a result of possible breach of the relevant annual cap limits if they are set at levels significantly below the proposed New Caps.

Shareholders' attention is drawn to the fact that the Group's key business operation is based in Hong Kong, and its economy and markets are susceptible to many external forces including (i) the uncertain outcome of the lengthy US-China trade negotiations, (ii) the trend of US interest rate reduction which directly impacts the Hong Kong economy given that the Hong Kong dollar is pegged to the US dollar, (iii) Hong Kong's export relationships with its trading partners which include the United Kingdom which is going through period of uncertainties under its implementation of exit from the European Union, (iv) the continuing attraction of Hong Kong as an international financial and capital market, (v) the economic interactions that Hong Kong has with the Mainland, including the Greater Bay Area initiatives, of which Hong Kong has been designated as the prime gateway and a hyper-connected financial hub, and (vi) the impacts that the social unrest in Hong Kong since the summer of 2019 may have on the Hong Kong economy and any ensuing changes in governmental policies. The extent of how these external forces play out would all have a significant effect on the business of the Group, and by definition, the realisation of the Management's growth assumption and the eventual cap utilisation.

Furthermore, we have 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 business generated with connected persons, and as a result the Group had to seek ad hoc cap limit revision to remedy. We accept that the aforementioned New Caps, which have been set based on a consistent manner as in the past, albeit that the Annual Increment Growth Rates for the last two years in this three-year New Caps period have been significantly reduced, are prudent and reasonable.

5.5 *Our view*

Having considered the following factors,

- (i) the historical amounts of Continuing Connected Transactions recorded are not an appropriate or reliable reference to determine the New Caps, reasons of which are set out under section headed "5. New Caps";
- (ii) the Group may from time to time extend its product range and services on offer, subject to, among others, compliance with regulatory policies and market demand;
- (iii) the price sensitiveness of certain categories of the Continuing Connected Transactions to market conditions and the requirement to execute the transactions in a short time frame;
- (iv) the Continuing Connected Transactions are primarily market driven and unpredictable. The Group had in 2006 and in 2007 experienced unforeseeable increase in transaction volume that necessitated urgent independent shareholders' approval to revise certain cap limits. To minimise the risk of potential breach of cap limits which may cause unnecessary disruption to the Continuing Connected Transactions which form part of the normal operation of the Group, a sufficiently large annual caps limit, operated under the Group's well-established internal control mechanisms for pricing and the related review procedures, is considered prudent under the circumstances;
- (v) in order to capture opportunities arising from the implementation of the Belt and Road Initiative, the internationalisation of the RMB, the "Going Global" Chinese enterprises and large corporates in Southeast Asia and the increasing policy support in the Greater Bay Area, the Group would strengthen its collaboration with the BOC Group;
- (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 the BOC Group, subject to the terms of the respective agreements, for each of the three years ending 31 December 2022; and
- (vii) the Group has the right but not the obligation to transact with the BOC Group in connection with the Continuing Connected Transactions,

we consider that it is reasonable and prudent for the Group to adopt the New Caps and we 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.

LETTER FROM ABLE CAPITAL

Shareholders should note that 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.

IV. RECOMMENDATION

Having considered the above principal factors, in particular:

- (i) the background information of the Group and the 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) the Group's stated strategy and business expansion plan; and
- (v) the background of under-utilisation of the historical annual caps set out under section headed "5.1 Utilisation of historical annual caps in relation to the Continuing Connected Transactions" and other factors considered when assessing the New Caps set out under section headed "5.5 Our view",

we are of the view that the terms of the Continuing Connected Transactions (i.e. the Investment and Referral 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 the Group's business and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the GM to approve the Continuing Connected Transactions (i.e. the Investment and Referral Connected Transactions and the Inter-bank Connected Transactions) (including the relevant New Caps).

Yours faithfully,
For and on behalf of
Able Capital Partners Limited

Stephen Hui
Director

Kenneth Lo
Director

Mr. Stephen Hui is a licensed person registered with the Securities and Futures Commission and a responsible officer of Able Capital Partners Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 30 years of experience in corporate finance industry.

Mr. Kenneth Lo is a licensed person registered with the Securities and Futures Commission and a responsible officer of Able Capital Partners Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 6 years of experience in corporate finance industry.

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, namely Mr LIU Liange and Mr LIN Jingzhen, are also directors of BOC, which has an interest in the Shares that 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, incorporated in the People's Republic 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 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), 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:

The Company:**American Depositary Shares (ADS)**

Name of Director	Number of Shares/underlying Shares held				Total	Approximate % of the total issued Shares
	Personal interests	Family interests	Corporate interests	Other interests		
TUNG Savio Wai-Hok	2,000 ^(Note 1)	–	–	–	2,000	0.00% ^(Note 2)

Notes:

(1) Each ADS represents 20 ordinary Shares.

(2) Such Shares held by Mr TUNG Savio Wai-Hok represent approximately 0.0004% of the total issued Shares.

**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		
GAO Yingxin	1,100	–	–	–	1,100	0.00% ^(Note 1)
CHOI Koon Shum	4,000,000	40,000 ^(Note 2)	1,120,000 ^(Note 3)	–	5,160,000	0.01%

Notes:

- (1) Such shares held by Mr GAO Yingxin represent approximately 0.000001% of the total issued H shares of BOC.
- (2) Such shares are held by the spouse of Dr CHOI Koon Shum.
- (3) 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 2018 (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; (iii) were proposed to be acquired or disposed of by; or (iv) were 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:

Name	Qualification
Able Capital Partners Limited	A corporation licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

Able Capital 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, Able Capital 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, Able Capital does not have any direct or indirect interest in any assets which had been since 31 December 2018 (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 2018, 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 15 of this circular;
- (b) the letter from Able Capital, the text of which is set out on pages 16 to 34 of this circular; and
- (c) the Services and Relationship Agreement and the Amendment of Agreement.