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**中銀香港(控股)有限公司**

**BOC HONG KONG (HOLDINGS) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(the “Company”, Stock Code: 2388)**

## **ANNOUNCEMENT**

### **CONTINUING CONNECTED TRANSACTIONS**

In the ordinary course of its business, the Group conducts the Continuing Connected Transactions with BOC and its associates, of which the Disclosed Continuing Connected Transactions have been disclosed in the announcements dated 4 January, 2005, 11 April, 2006, 28 August, 2007, 2 January, 2008, 30 December, 2010 respectively. In addition, the estimated transaction amounts for the New Continuing Connected Transactions are expected to exceed the de minimis thresholds of 0.1% of the applicable percentage ratios as defined in the Listing Rules for each of the three financial years ending 31 December, 2016 and are therefore subject to the disclosure requirements under the Listing Rules.

The Continuing Connected Transactions will continue following the expiration of the financial year ending 31 December, 2013. The Company has assigned new annual caps for each of the three financial years ending 31 December, 2016 (the “**New Caps**”) in respect of the Continuing Connected Transactions.

Given that the New Caps in respect of the General Connected Transactions represent less than 5% of the applicable percentage ratios as defined in the Listing Rules, the General Connected Transactions fall within Rule 14A.34 of the Listing Rules, and are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules.

Given that the New Caps in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions represent 5% or more of the applicable percentage ratios as defined in the Listing Rules, the Investment Connected Transactions and the Inter-bank Connected Transactions constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules, and are subject to the reporting, announcement and independent shareholders’ approval requirements under Rules 14A.45 to 14A.48 and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules.

The Board has set up the Independent Board Committee to review and advise the Independent Shareholders on the Continuing Connected Transactions. The Company has appointed Investec Capital Asia Limited as an independent financial adviser to advise the Independent Board Committee and the Independent Shareholders for the purpose of considering the Investment Connected Transactions and the Inter-bank Connected Transactions.

A circular containing, among other things, (i) details of the Investment Connected Transactions and the Inter-bank Connected Transactions and the New Caps in respect thereof; (ii) a letter from Investec Capital Asia Limited to the Independent Board Committee and the Independent Shareholders containing its advice on the Investment Connected Transactions and the Inter-bank Connected Transactions; and (iii) the recommendation of the Independent Board Committee in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions, will be dispatched to the shareholders of the Company on or about 3 January, 2014. A notice of the EGM will be dispatched to the shareholders of the Company separately.

## **BACKGROUND TO THE CONTINUING CONNECTED TRANSACTIONS**

Since its listing, the Group has been conducting the Continuing Connected Transactions with BOC and its associates in the ordinary and usual course of its business on normal commercial terms. As of the date of this announcement, BOC indirectly controls approximately 66.06% of the issued shares of the Company and is the controlling shareholder of the Company. Accordingly, BOC and its associates are connected persons of the Company under the Listing Rules.

Pursuant to the Services and Relationship Agreement, BOC has agreed to enter into, and to procure its associates to enter into, all future 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 relation to certain areas including, among others, information technology services, training services, physical bullion agency services, correspondent banking arrangements, treasury transactions, provision of insurance and syndicated loans. Pursuant to the same agreement, the Company has agreed to enter into, and to procure its subsidiaries to enter into, all future 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 Continuing Connected Transactions are governed by the Services and Relationship Agreement and/or other specific agreements. The Services and Relationship Agreement, as amended, is for a period of three years commencing 1 January, 2014. The Services and Relationship Agreement is also amended to allow for the provision of information technology services to the Group by BOC and its associates, in addition to the previous position of allowing for the provision of such services to BOC and its associates by the Group.

The annual caps for each of the financial years ended 31 December, 2011 and 2012 in respect of the Continuing Connected Transactions have not been exceeded. Based on the information available to the Company up to the date of this announcement, the Company does not expect the annual caps for the financial year ending 31 December, 2013 to be exceeded.

## PARTICULARS OF THE CONTINUING CONNECTED TRANSACTIONS

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

### General Connected Transactions

#### 1. *Information Technology Services*

The Group provides and receives various information technology services to and from BOC and its associates. These services include technical consultancy, specific computer systems and software development, systems maintenance, operations, support, network installation, user training and support, control and supervision of system security and safety services. The Group receives and pays service fees based on arm's length negotiations between the parties. These services are provided on normal commercial terms.

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

|  | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|--|-------------|-------------|--------------|
| Historical revenues and payments<br>(HK\$ million) | 46.91       | 47.97       | 38.77        |
|  | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps (HK\$ million)                            | 1,000       | 1,000       | 1,000        |

\* For the eight months ended 31 August, 2013 while the annual caps for each of the three years ending 31 December, 2013 is HK\$1,000 million.

#### 2. *Property Transactions*

##### 2.1 *Leases and licences*

The Group leases various premises from and to BOC and its associates in Hong Kong and China pursuant to various leases and licences agreements at prevailing market rates at the relevant times. These arrangements are conducted on normal commercial terms.

##### 2.2 *Property management and letting agency*

Sun Chung provides property management and letting services to BOCHK at Bank of China Tower, Bank of China Building, Bank of China Centre and other properties as required from time to time. In return, Sun Chung receives (i) a monthly management fee which is partially paid by the Group's tenants with the remainder paid by the Group in respect of the office space used by the Group; (ii) a commission payment based on the total rents collected for the buildings, which includes notional rents in respect of office space used by the Group; and (iii) commission payments provided that either Sun Chung is able to find new tenants for the buildings or the existing tenants renew their leases with the Group. These arrangements are conducted on normal commercial terms.

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

|  | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|--|-------------|-------------|--------------|
| Historical revenues and payments<br>(HK\$ million) | 128.51      | 137.05      | 97.20        |
|  | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps (HK\$ million)                            | 1,000       | 1,000       | 1,000        |

\* For the eight months ended 31 August, 2013 while the annual caps for each of the three years ending 31 December, 2013 is HK\$1,000 million.

### 3. *Bank-note Delivery*

BOCHK provides bank-note delivery services to BOC and its associates for fees based on market rates.

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

|                                | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|--------------------------------|-------------|-------------|--------------|
| Historical fees (HK\$ million) | 96.61       | 113.42      | 105.64       |
|                                | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps (HK\$ million)        | 1,000       | 1,000       | 1,000        |

\* For the eight months ended 31 August, 2013 while the annual caps for each of the three years ending 31 December, 2013 is HK\$1,000 million.

### 4. *Provision of Insurance Cover*

BOC Insurance and BOCG Life provide insurance cover to the Group including, without limitation, cash and cash transit insurance, group medical insurance, group life insurance, employee compensation insurance, public liability insurance, accidental damage to property insurance, Bankers' Blanket Bond and directors' and officers' liability insurance. These arrangements are conducted on normal commercial terms.

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

|   | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|---|-------------|-------------|--------------|
| Historical premiums ( <i>HK\$ million</i> ) | 114.52      | 126.68      | 105.91       |
|   | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps ( <i>HK\$ million</i> )            | 1,000       | 1,000       | 1,000        |

\* For the eight months ended 31 August, 2013 while the annual caps for each of the three years ending 31 December, 2013 is HK\$1,000 million.

## 5. *Card Services*

BOC acts as an agent bank for BOC-CC in connection with BOC-CC's merchant acquiring business in China and promotes such business for a percentage of the transaction amount. In addition, BOC and BOC-CC share the profits from the dynamic currency conversion services for merchant acquiring business of international card in China. BOC and BOC-CC also share the transaction-handling fees which cardholders are charged for over-the-counter cash withdrawals in China. BOC also provides training to its staff in its provincial branches throughout China in connection with BOC-CC's business.

BOC also co-operates with BOC-CC in China to provide back office support services to card services of BOC and China business development of BOC-CC. All these arrangements and transactions are conducted on normal commercial terms.

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

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

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

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

BOC Services Company Limited, a subsidiary of BOC, and BOC-CC provide services to each other in relation to card business in China. All these arrangements and transactions are conducted on normal commercial terms.

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

|   | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|---|-------------|-------------|--------------|
| Historical commissions and payments<br>(HK\$ million) | 100.74      | 103.56      | 56.96        |
|   | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps (HK\$ million)                               | 1,000       | 1,000       | 1,000        |

\* For the eight months ended 31 August, 2013 while the annual caps for each of the three years ending 31 December, 2013 is HK\$1,000 million.

## 6. Custody Business

The Group provides and receives custody-related services to or from its own subsidiaries and BOC and its associates. The custody-related services provided by the Group mainly cover safekeeping, settlement, corporate action handling and reporting. Most of these transactions are conducted through custody accounts opened at BOCHK under BOC's own name but for third party beneficiaries (such as qualified domestic institutional investors in the PRC). BOCHK receives and pays custody fees from and to its own subsidiaries and BOC and its associates, such fees being based on normal commercial terms.

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

|  | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|--|-------------|-------------|--------------|
| Historical custody fees (HK\$ million) | 31.62       | 36.01       | 24.71        |
|  | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps (HK\$ million)                | 1,000       | 1,000       | 1,000        |

\* For the eight months ended 31 August, 2013 while the annual caps for each of the three years ending 31 December, 2013 is HK\$1,000 million.

## 7. *Call Center Services*

Since 2010, in the ordinary course of its business, the call center of the Group has outsourced its operations to a subsidiary of BOC in China. The Group pays service charges, based on normal commercial terms.

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

|   | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|---|-------------|-------------|--------------|
| Historical payments ( <i>HK\$ million</i> ) | 42.70       | 47.66       | 34.55        |
|   | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps ( <i>HK\$ million</i> )            | 1,000       | 1,000       | 1,000        |

\* For the eight months ended 31 August, 2013 while the annual caps for each of the three years ending 31 December, 2013 is HK\$1,000 million.

## Investment Connected Transactions

### 8. *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, net of a rebate based on a fixed portion of the gross commission, to BOCI Securities. Accordingly, the Group has been receiving rebates from BOCI Securities at a fixed proportion of the gross commission paid to BOCI Securities.

In addition, since 2004, the Group has distributed various securities products issued by BOCI Securities and its associates such as equity linked instruments, structured notes, bonds and other financial products as their agent on the basis of a commission with reference to the prevailing market rates.

The table below sets out the historical commissions (net of rebate) and revenues and the New Caps for the securities transactions described above:

|   | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|---|-------------|-------------|--------------|
| Historical commissions (net of rebate) and revenues ( <i>HK\$ million</i> ) | 318.69      | 226.04      | 156.93       |
|   | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps ( <i>HK\$ million</i> )  | 4,500       | 7,000       | 10,000       |

\* For the eight months ended 31 August, 2013 while the annual caps for the years ending 31 December, 2011, 2012 and 2013 were HK\$3,500 million, HK\$5,000 million and HK\$7,500 million, respectively.

## 9. Fund Distribution Transactions

As one of the leading financial services providers in Hong Kong, the Group renders fund distribution services to fund suppliers (including BOCI-Prudential Asset Management) in its ordinary course of business. The Group promotes and sells various fund products, including guaranteed fund and open-ended fund products, in its capacity as an intermediary between the fund suppliers and the fund subscribers. The Group receives a commission rebate on the basis of a certain percentage of the subscription fee and the management fee received by these entities 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.

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

|  | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|--|-------------|-------------|--------------|
| Historical commissions and rebates ( <i>HK\$ million</i> ) | 34.99       | 38.87       | 30.64        |
|  | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps ( <i>HK\$ million</i> )                           | 4,500       | 7,000       | 10,000       |

\* For the eight months ended 31 August, 2013 while the annual caps for the years ending 31 December, 2011, 2012 and 2013 were HK\$3,500 million, HK\$5,000 million and HK\$7,500 million, respectively.

## 10. Insurance Agency

The Group provides to BOC Insurance and BOCG Life insurance agency services and receives commission payments in respect of the policies issued or renewed.

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

|  | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|--|-------------|-------------|--------------|
| Historical commissions ( <i>HK\$ million</i> ) | 646.36      | 588.61      | 562.37       |
|  | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps ( <i>HK\$ million</i> )               | 4,500       | 7,000       | 10,000       |

\* For the eight months ended 31 August, 2013 while the annual caps for the years ending 31 December, 2011, 2012 and 2013 were HK\$3,500 million, HK\$5,000 million and HK\$7,500 million, respectively.

## Inter-bank Connected Transactions

### 11. Foreign Exchange Transactions

In the ordinary course of its business, the Group enters into foreign exchange transactions with BOC and its associates. These transactions are executed with reference to prevailing market rates. Foreign exchange transactions include spot, forward and outright transactions, and exercised currency options. The Group also conducts foreign currency banknote exchange transactions with BOC on normal commercial terms. Such transactions are entered into for the purpose of foreign exchange risk management and in response to customer-driven transactions.

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

|   | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|---|-------------|-------------|--------------|
| Historical trading income ( <i>HK\$ million</i> ) | 106.40      | 194.56      | 169.45       |
|   | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps ( <i>HK\$ million</i> )                  | 4,500       | 7,000       | 10,000       |

\* For the eight months ended 31 August, 2013 while the annual caps for the years ending 31 December, 2011, 2012 and 2013 were HK\$3,500 million, HK\$5,000 million and HK\$7,500 million, respectively.

## 12. Derivatives Transactions

In the ordinary course of its business, the Group enters into over-the-counter and on-exchange derivatives transactions with clients and counterparties. Such derivatives transactions are mainly foreign exchange and interest rate plain vanilla derivatives products such as interest rate swaps, cross currency interest rate swaps, foreign exchange options, bond options etc. All transactions are executed with references to the current market price. These transactions are all executed on an arm's length basis and on normal commercial terms. Such transactions are entered into for various reasons, including to allow BOC and its associates 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.

During the years ended 31 December, 2011, 31 December, 2012 and the year ending 31 December, 2013, the trading income in relation to the derivatives transactions have been, or are expected to be, respectively, within the de minimis thresholds of 0.1% of the applicable percentage ratios as defined in the Listing Rules and hence were or are, respectively, exempt from the reporting and announcement requirements. The table below sets out the historical trading income and the New Caps for the derivatives transactions described above:

|  | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|--|-------------|-------------|--------------|
| Historical trading income (HK\$ million) | 0.01        | 3.93        | 40.00        |
|  | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps (HK\$ million)                  | 4,500       | 7,000       | 10,000       |

\* For the eight months ended 31 August, 2013. This transaction, which is newly announced, previously fell within the de minimis threshold and therefore no historical caps were set.

## 13. 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, forfeitings 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 are entered into for the purpose of risk management of assets and to maintain adequate liquidity level.

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

|                                 | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|---------------------------------|-------------|-------------|--------------|
| Historical value (HK\$ million) | 5,638.24    | 8,207.32    | 6,613.69     |
|                                 | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps (HK\$ million)         | 150,000     | 230,000     | 350,000      |

\* For the eight months ended 31 August, 2013 while the annual caps for the years ending 31 December, 2011, 2012 and 2013 were HK\$100,000 million, HK\$150,000 million and HK\$250,000 million, respectively.

#### 14. Inter-bank Capital Markets

The Group buys and sells debt securities from and to BOC and its associates in the secondary market with reference to prevailing market rates. The Group may trade other securities with BOC and its associates in the future.

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

|                                 | <u>2011</u> | <u>2012</u> | <u>2013*</u> |
|---------------------------------|-------------|-------------|--------------|
| Historical value (HK\$ million) | 2,600.81    | 1,713.26    | 4,979.77     |
|                                 | <u>2014</u> | <u>2015</u> | <u>2016</u>  |
| New Caps (HK\$ million)         | 150,000     | 230,000     | 350,000      |

\* For the eight months ended 31 August, 2013 while the annual caps for the years ending 31 December, 2011, 2012 and 2013 were HK\$100,000 million, HK\$150,000 million and HK\$250,000 million, respectively.

### REASONS AND BASIS FOR THE ANNUAL CAPS

#### General Connected Transactions

The Company intends to set the New Caps for each of the three financial years ending 31 December, 2016 in respect of each of the General Connected Transactions at HK\$1,000 million.

The General Connected Transactions in general are mainly transactions with BOC for mutual benefits or synergy (e.g. card services, information technology services, property transactions, bank-notes delivery, provision of insurance cover, custody business and call center services). Although the historical transaction amounts of the General Connected Transactions are relatively stable as compared to the Investment Connected Transactions and the Inter-bank Connected Transactions, the transaction amounts of the General Connected Transactions are subject to a number of uncertainties and may vary in the forthcoming three years. Such uncertainties include any possible increases in the inflation rate, the business environment of the banking industry, property markets and insurance market etc. The New Caps are set at a standard amount of HK\$1,000 million which have been determined with reference to the expected growth of transactions with BOC. With the further strengthening of the Group's relationship with BOC, the Group expects the amounts of the General Connected Transactions to increase as compared to the historical amounts. Given the New Caps are estimated to be less than 5% of all applicable percentage ratios as defined in the Listing Rules, it is beneficial to set the annual caps at a standard amount of HK\$1,000 million so as to allow more room for the Group's planned expansion into the PRC market. Given the continued growth of the PRC economy and the Group's strategy on long-term development of RMB banking business in Hong Kong, greater transaction volumes and amounts are expected between the Group and BOC (e.g. card services and bank-note delivery services). Therefore, it is reasonable to set a buffer for the New Caps by taking into account the further strengthening of the Group's business relationship with BOC. In this connection, the directors of the Company (including the independent non-executive directors) are of the view that the New Caps are in the interests of the Company and its shareholders as a whole.

## **Investment Connected Transactions and the Inter-bank Connected Transactions**

The Investment Connected Transactions involve activities which are regulated by various regulatory bodies in Hong Kong, such as the Hong Kong Monetary Authority, the Securities and Futures Commission and the Office of the Commissioner of Insurance. The Investment Connected Transactions are market driven and unpredictable in nature. The securities and fund distribution transactions are subject to the sentiment of the investment market whereas the Inter-bank Connected Transactions are based on customers' decision on their wealth management portfolio (e.g. stock, trust fund and foreign currency etc.), both of which are not within the Group's control. The insurance agency transactions relate primarily to the insurance market and the volume and amounts of such transactions are also subject to external factors outside the Group's control. Accordingly, a standard cap amount of HK\$4,500 million is proposed for each of the Investment Connected Transactions for the year ending 31 December, 2014. Such annual cap is based on 5% of the revenue of the Group (being the benchmark figure adopted internally by the Company with reference to the Company's experience in similar transactions and which the Company considers reasonable given the volatility of the capital markets) of approximately HK\$57,717 million for the year ended 31 December, 2012 after taking into account the average growth rate of the Group for the five years ended 31 December, 2012, of approximately 4.78% and also an annual growth rate of approximately 50%. For each of the two years ending 31 December, 2016, an annual growth rate of approximately 50% is also applied on the annual cap for the year ending 31 December, 2014 to set the respective annual caps for each of the Investment Connected Transactions. Such annual growth rate, which is considered to be difficult for the Group to estimate, has been determined after taking into account the market-driven nature of the Investment Connected Transactions. Since the transaction amounts of the Investment Connected Transactions may vary significantly due to the unexpected fluctuations of the financial markets and economic conditions, the directors of the Company (including the independent non-executive directors) consider setting standard cap amounts for the Investment Connected Transactions for each of the three years ending 31 December, 2016 is in the interests of the Company and its shareholders as a whole.

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

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

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

The trading of financial assets and the inter-bank capital markets transactions involve dollar bills and exchange fund notes, of which the Group is one of the market makers in Hong Kong. The amount for the trading of financial assets transactions increased by approximately 46% in 2012 as compared to 2011. The amount for the inter-bank capital market transactions decreased by approximately 34% in 2012 as compared to 2011. Given the great uncertainties of these two transactions which may vary subject to market conditions, the annual cap for the year ending 31 December, 2014 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, 2012 of approximately HK\$7,327 million) of approximately HK\$1,823,436 million as at 31 December, 2012 (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 Group for the five years ended 31 December, 2012, of approximately 13% and also an annual growth rate of approximately 50%. For each of the two years ending 31 December, 2016, an annual growth rate of approximately 50% is also applied on the annual cap for the year ending 31 December, 2014 to set the respective annual caps for each of the trading of financial assets and the inter-bank capital markets transactions. Such annual growth rate, which is considered to be difficult for the Group to estimate, has been determined after taking into account the market-driven nature of the trading of financial assets and the inter-bank capital markets transactions.

Such annual caps provide flexibility for the Group to accommodate future unexpected volatility of the financial markets and the directors of the Company (including the independent non-executive directors) consider that the annual caps for the Inter-bank Connected Transactions for each of the three years ending 31 December, 2016 are in the interests of the Company and its shareholders as a whole.

## **LISTING RULES REQUIREMENTS**

### **General Connected Transactions**

Given that the New Caps in respect of the General Connected Transactions represent less than 5% of the applicable percentage ratios as defined in the Listing Rules, the General Connected Transactions fall within Rule 14A.34 of the Listing Rules, and are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules.

## **Investment Connected Transactions and Inter-bank Connected Transactions**

Given that the New Caps in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions represent 5% or more of the applicable percentage ratios as defined in the Listing Rules, the Investment Connected Transactions and the Inter-bank Connected Transactions constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules, and are subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules. As the Investment Connected Transactions and the Inter-bank Connected Transactions continue following the expiration of the financial year ending 31 December, 2013, each of the aggregate transaction values of the Investment Connected Transactions and the Inter-bank Connected Transactions will be closely monitored to ensure that they fall within 5% of the applicable percentage ratios as defined in the Listing Rules, prior to obtaining approval from the Independent Shareholders at the EGM. 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 transaction, and imposing a lower threshold as an internal cap whereby a warning signal will be issued and preventive measures will be taken immediately if the relevant connected transactions reach the internal cap.

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

The Board has set up the Independent Board Committee comprising all of the independent non-executive directors of the Company to review the Continuing Connected Transactions and the New Caps and to give recommendations to the Independent Shareholders. The Company has appointed Investec Capital Asia Limited 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 have been entered into in the ordinary and usual course of the Group's business, on normal commercial terms, are fair and reasonable, and are in the interests of the Company and its shareholders as a whole, and whether the New Caps are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The directors of the Company (including the independent non-executive directors) have confirmed that they are satisfied that the General Connected Transactions, the Investment Connected Transactions and the Inter-bank Connected Transactions have been entered into in the ordinary and usual course of the Group's business, on normal commercial terms, are fair and reasonable, and are in the interests of the Company and its shareholders as a whole. Certain non-executive directors of the Company, namely Mr. Tian Guoli, Mr. Li Lihui, and Mr. Li Zaohang, are also executive directors of BOC. In addition, Mr. Chen Siqing, also a non-executive director of the Company, is an executive vice president of BOC. Accordingly, Mr. Tian Guoli, Mr. Li Lihui, Mr. Li Zaohang and Mr. Chen Siqing abstained from voting on the resolutions in respect of the Continuing Connected Transactions at the meeting of the Board.

A circular containing, among other things, (i) details of the Investment Connected Transactions and the Inter-bank Connected Transactions and the New Caps in respect thereof; (ii) a letter from Investec Capital Asia Limited to the Independent Board Committee and the Independent Shareholders containing its advice on the Investment Connected Transactions and the Inter-bank Connected Transactions; and (iii) the recommendation of the Independent Board Committee in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions, will be dispatched to the shareholders of the Company on or about 3 January, 2014. A notice of the EGM will be dispatched to the shareholders of the Company separately.

Pursuant to Rule 14A.54 of the Listing Rules, any connected person and any shareholder and their associates with a material interest in the Investment Connected Transactions and the Inter-bank Connected Transactions are required to abstain from voting on the relevant resolutions at the EGM. BOC and its associates are therefore required to abstain from voting on the resolutions in respect of the Investment Connected Transactions, the Inter-bank Connected Transactions and the New Caps at the EGM.

## **INFORMATION ON THE GROUP AND BOC**

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

BOC and its subsidiaries, as China's most international and diversified bank, provide a comprehensive range of corporate banking, personal banking, treasury operations, investment banking, insurance and other services to its customers in the Mainland China, Hong Kong, Macau and the Taiwan Region as well as other countries.

## **DEFINITIONS**

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

|                |  |
|----------------|--|
| “associate(s)” | has the meaning ascribed to it in the Listing Rules  |
| “Board”        | the board of directors of the Company  |
| “BOC”          | Bank of China Limited, a joint stock commercial bank with limited liability established under the laws of the PRC, the H shares and A shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange respectively; and the indirect holder of approximately 66.06% of the share capital in the Company as at the date of this announcement |
| “BOC-CC”       | BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCHK   |
| “BOCHK”        | Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company   |

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| “BOC Insurance”                               | Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC  |
| “BOCG Life”                                   | BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Company and BOC Insurance hold equity interests of 51% and 49% respectively  |
| “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 Securities”                             | BOCI Securities Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCI   |
| “Company”                                     | BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong, the shares of which are listed on the Stock Exchange  |
| “Continuing Connected Transactions”           | the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions” of this announcement   |
| “Disclosed Continuing Connected Transactions” | all Continuing Connected Transactions, other than the New Continuing Connected Transactions   |
| “EGM”   | the extraordinary general meeting of the Company to be held immediately following the conclusion of the annual general meeting of the Company, tentatively scheduled to be held in June 2014 to approve the Investment Connected Transactions and the Inter-bank Connected Transactions |
| “General Connected Transactions”              | the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – General Connected Transactions” of this announcement  |
| “Group”                                       | the Company and its subsidiaries  |
| “Hong Kong”                                   | Hong Kong Special Administrative Region   |
| “Independent Board Committee”                 | a committee of the Board comprising all the independent non-executive directors of the Company  |

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| “Independent Shareholders”              | shareholders (other than BOC and its associates) who are not required to abstain from voting on the relevant resolutions at the EGM   |
| “Inter-bank Connected Transactions”     | the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – Inter-bank Connected Transactions” of this announcement   |
| “Investec Capital Asia Limited”         | Investec Capital Asia Limited is a wholly owned subsidiary of Investec plc, an international specialist bank and asset manager listed on the London Stock Exchange. Investec Capital Asia Limited is a licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Investment Connected Transactions”     | the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – Investment Connected Transactions” of this announcement   |
| “Listing Rules”                         | the Rules Governing the Listing of Securities on the Stock Exchange (and a “Rule” means a rule of the Listing Rules)  |
| “Macau”                                 | Macau Special Administrative Region   |
| “New Continuing Connected Transactions” | the Derivatives Transactions, further details of which are set out in the section headed “Particulars of the Continuing Connected Transactions – Inter-bank Connected Transactions” of this announcement  |
| “PRC” or “China”                        | The People’s Republic of China which, for the purposes of this announcement only, excludes Hong Kong, Macau and Taiwan  |
| “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)   |
| “Stock Exchange”                        | The Stock Exchange of Hong Kong Limited   |
| “Sun Chung”                             | Sun Chung Property Management Company Limited, a company incorporated under the laws of Hong Kong and an indirect wholly owned subsidiary of BOC  |

“Tai Fung Bank”

Tai Fung Bank Limited, a company incorporated under the laws of Macau and a subsidiary of BOC

By Order of the Board  
CHAN Chun Ying  
Company Secretary

Hong Kong, 10 December, 2013

*As at the date of this announcement, the board of directors of the Company comprises Mr. TIAN Guoli\* (Chairman), Mr. LI Lihui\* (Vice-chairman), Mr. HE Guangbei (Vice-chairman and Chief Executive), Mr. LI Zaohang\*, Mr. ZHOU Zaiqun\*, Mr. CHEN Siqing\*, Mr. GAO Yingxin, Dr. FUNG Victor Kwok King\*\*, Mr. KOH Beng Seng\*\*, Mr. NING Gaoning\*\*, Mr. SHAN Weijian\*\*, and Mr. TUNG Savio Wai-Hok\*\*.*

\* *Non-executive directors*

\*\* *Independent non-executive directors*