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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 a licensed securities dealer, 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, licensed securities dealer 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**



A letter from the Board is set out on pages 4 to 11 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 12 of this circular. A letter from Investec Capital Asia Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 25 of this circular. A notice for convening the EGM 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 or around April 2014.

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## DEFINITIONS

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

“Articles of Association”	the articles of association of the Company (as adopted, amended or modified from time to time)
“associate(s)”	has the meaning ascribed to it under 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 Latest Practicable Date
“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”	BOCG 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”	BOCI 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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the Investment Connected Transactions and the Inter-bank Connected Transactions
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held immediately following conclusion of the annual general meeting of the Company, tentatively scheduled to be held in June 2014 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 PRC

## DEFINITIONS

“Independent Board Committee”	a committee of the Board comprising all the independent non-executive Directors
“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” in the Letter from the Board in this circular
“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” in the Letter from the Board in this circular
“Latest Practicable Date”	20 December 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	Macau Special Administrative Region of the PRC
“New Caps”	the new caps for each of the three years ending 31 December 2016 in respect of the Continuing Connected Transactions
“PRC” or “China”	the People’s Republic of China and for the purpose of this circular excluding 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)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$5.00 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the same meaning ascribed to it under the Listing Rules



**中銀香港(控股)有限公司**  
**BOC HONG KONG (HOLDINGS) LIMITED**  
*(Incorporated in Hong Kong with limited liability)*  
**(Stock Code: 2388)**

**Board of Directors:**

Mr. TIAN Guoli\* (Chairman)  
Mr. 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\*\*  
Mr. TUNG Savio Wai-Hok\*\*

**Registered office:**

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

\* Non-executive Directors

\*\* Independent Non-executive Directors

31 December 2013

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

Reference is made to the announcement of the Company dated 10 December 2013 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. Such transactions will help expand the Company's market presence in Hong Kong as well as overseas. As at the Latest Practicable Date, 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 Latest Practicable Date, the Company does not expect the annual caps for the financial year ending 31 December 2013 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; and
- (b) to set out the letter of advice in respect of the Continuing Connected Transactions and the New Caps from Investec Capital Asia Limited to the Independent Board Committee and the Independent Shareholders.

## LETTER FROM THE BOARD

### PARTICULARS OF THE CONTINUING CONNECTED TRANSACTIONS

#### *Investment Connected Transactions*

##### 1. Securities Transactions

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

In consideration of the provision of securities brokerage services to the Group and its customers by BOCI Securities, the Group pays a commission, 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. The commission and rebate are net off from the settlement proceeds for each transaction.

In order to ensure that the terms of the relevant agreement to be entered into between the Group and BOCI Securities are in line with the market or no less favourable than those with independent third parties, the Group would compare the market rates of comparable securities transactions before entering into the relevant agreement. The Group also reviews the transactions under the relevant agreement regularly to ensure that such transactions are executed in line with the terms set out under the relevant agreement.

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 (HK\$ million)	318.69	226.04	156.93
	<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 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.

##### 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 and usual 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 monthly 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 which is maintained and updated by the Group's global markets department, which is responsible for the fund distribution transactions from time to time, with reference to factors such as changes in market environment and the Group's relationship with individual fund suppliers. In order to ensure that the terms under the relevant distribution agreements to be 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, the Group compares the market rates of comparable fund distribution transactions before entering into the relevant distribution agreements. The Group also reviews the transactions under the relevant distribution agreements regularly to ensure that such transactions are executed in line with the terms set out under the relevant distribution agreements and the agreed fee schedule.

## LETTER FROM THE BOARD

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

	2011	2012	2013*
Historical commissions rebates (HK\$ million)	34.99	38.87	30.64
	2014	2015	2016
New Caps (HK\$ million)	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.

### 3. Insurance Agency

In its ordinary and usual course of business, the Group provides to BOC Insurance and BOCG Life insurance agency services and receives commission payments in respect of the policies issued or renewed. Commission payments for life insurance products are received on a monthly basis, whilst commission payments for general insurance products are net off from the premium.

The terms of the insurance agency transactions are determined after arm's length negotiations and are entered into in accordance with the existing policy and internal guidelines. In order to ensure that the terms under the relevant agency agreements to be entered into between the Group and BOC Insurance and BOCG Life are in line with the market or no less favourable than those with independent third parties, the Group compares the market rates of comparable insurance agency transactions before entering into the relevant agency agreements. The Group also reviews the transactions under the relevant agency agreements regularly to ensure that such transactions are executed in line with the terms set out under the relevant agency agreements.

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

	2011	2012	2013*
Historical commissions (HK\$ million)	646.36	588.61	562.37
	2014	2015	2016
New Caps (HK\$ million)	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

#### 4. Foreign Exchange Transactions

In the ordinary course of its business, the Group enters into foreign exchange transactions with BOC and its associates. These transactions, payment for which is made on a transaction basis, are executed with reference to prevailing market rates which are transparent and readily ascertainable for real-time price feeds from Bloomberg. 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 foreign exchange transactions are processed through a centralised system (except foreign currency banknote exchange transactions), the design and operation of which complies with the Group's risk management and information technology security policies. The operation of the centralised system is subject to periodic review by both internal and external auditors. In addition, to ensure that foreign exchange transactions are executed at the prevailing market rates, the executed price of all foreign exchange transactions are monitored by the product control unit of the Group.

## LETTER FROM THE BOARD

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 (HK\$ million)	106.40	194.56	169.45
	<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 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.

### 5. 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, payment for which is made on a transaction basis, are executed with references to the current market price which is transparent and readily ascertainable for real-time price feeds from Bloomberg. 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.

The derivatives transactions are processed and controlled in the same manner as the foreign exchange transactions. The derivatives transactions are processed through the same centralised system, the design and operation of which complies with the Group's risk management and information technology security policies and is subject to periodic review by both internal and external auditors. Furthermore, all derivatives transactions are monitored daily by the product control unit of the Group to ensure that they have been executed at the prevailing market rates.

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.

### 6. 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. The trading of financial assets is conducted on normal commercial terms with reference to prevailing market rates. Such transactions do not have standard payment terms as these vary for each transaction. These transactions are entered into for the purpose of risk management of assets and to maintain adequate liquidity level.



## LETTER FROM THE BOARD

The Group monitors and reviews the trading of financial assets by the Group to ensure that the trading of financial assets transactions are executed at the prevailing market rates.

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:

	2011	2012	2013*
Historical value (HK\$ million)	5,638.24	8,207.32	6,613.69
	2014	2015	2016
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.

### 7. Inter-bank Capital Markets

In its ordinary and usual course of business, the Group buys and sells debt securities from and to BOC and its associates in the secondary market with reference to prevailing market rates which are transparent and readily ascertainable for real-time price feeds from Bloomberg. All inter-bank capital market transactions (including off-market rate transactions), payment for which is made on a transaction basis, are monitored and reviewed by the product control unit of the Group in order to ensure that they have been executed at the 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:

	2011	2012	2013*
Historical value (HK\$ million)	2,600.81	1,713.26	4,979.77
	2014	2015	2016
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

#### *Investment 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

## LETTER FROM THE BOARD

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 (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 the Shareholders as a whole.

### ***Inter-bank Connected Transactions***

The Inter-bank Connected Transactions involve transactions among banks or financial institutions, which are regulated by monetary authorities in all regions. For the foreign exchange transactions and derivatives transactions, a buy order and a sell order will be regarded as two transactions, and the amounts involved will therefore count twice, and 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, and 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 (including the independent non-executive Directors) consider that the New 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 the Shareholders as a whole.

### **LISTING RULES REQUIREMENTS**

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.

## 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 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 the Shareholders as a whole, and whether the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Investec Capital Asia Limited has confirmed to the Independent Board Committee that, in its opinion, 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 the Shareholders as a whole, and that the New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. On the basis of Investec Capital Asia Limited's advice and their own review, the Directors (including the independent non-executive Directors) have confirmed that they are satisfied that the Investment Connected Transactions and the Inter-bank Connected Transactions 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 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.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 resolution at the EGM. BOC and its associates are therefore required to abstain from voting on the resolution in respect of the Continuing Connected Transactions and the New Caps at the EGM.

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 and the New Caps at the meeting of the Board.

### **EXTRAORDINARY GENERAL MEETING**

The Directors propose that the EGM will be held immediately following conclusion of the annual general meeting of the Company, tentatively scheduled to be held in June 2014 to approve the Continuing Connected Transactions and the New Caps. A notice of EGM together with a proxy form will be despatched to the Shareholders in or around April 2014.

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 transactions, and imposing a lower threshold as an internal cap whereby a warning signal will be issued and preventive measures will be taken immediately if the relevant connected transactions reach the internal cap.

In the event that the Independent Shareholders do not grant approval for the New Caps of Investment Connected Transactions and the Inter-bank Connected Transactions at the 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.

### **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.

## LETTER FROM THE BOARD

### RECOMMENDATION

The Directors (including the independent non-executive Directors) have confirmed that they are satisfied that 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 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, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM for the approval of the Continuing Connected Transactions and the New Caps.

### ADDITIONAL INFORMATION

The Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the New Caps. Investec Capital Asia Limited 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 12 of this circular, which contains its recommendation to the Independent Shareholders, and the letter from Investec Capital Asia Limited set out on pages 13 to 25 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

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

Yours faithfully,  
On behalf of the Board  
TIAN Guoli  
*Chairman*



**中銀香港(控股)有限公司**

**BOC HONG KONG (HOLDINGS) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 2388)**

31 December 2013

*To: the Independent Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 31 December 2013 (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, the Continuing Connected Transactions and the New Caps are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Investec Capital Asia Limited 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 11 of the Circular, and the letter from Investec Capital Asia Limited to the Independent Board Committee and Independent Shareholders set out on pages 13 to 25 of the Circular which contains its opinion in respect of the Continuing Connected Transactions and the New Caps.

Having taken into account the advice of Investec Capital Asia Limited and its recommendation in relation thereto, we consider that the Continuing Connected Transactions and the New Caps are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the Continuing Connected Transactions and the New Caps.

Yours faithfully,  
TUNG Savio Wai-Hok (*Chairman*)  
FUNG Victor Kwok King  
KOH Beng Seng  
NING Gaoning  
SHAN Weijian  
*Independent Board Committee*

## LETTER FROM INVESTEC CAPITAL ASIA LIMITED

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



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31 December 2013

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

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### I. INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in connection with the Continuing Connected Transactions (including the relevant New Caps), details of which are set out in the "Letter from the Board" contained in the circular dated 31 December 2013 (the "**Circular**") of which this letter forms part. Capitalized terms used in this letter have the same meanings as those defined in the Circular unless the context otherwise specifies.

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. Such Continuing Connected Transactions consist of the Investment Connected Transactions (which comprise securities, fund distribution and insurance agency transactions), and the Inter-bank Connected Transactions (which comprise foreign exchange and derivatives transactions, trading of financial assets and inter-bank capital markets transactions). The Continuing Connected Transactions are governed by the Services and Relationship Agreement, originally entered into in July 2002. The Services and Relationship Agreement has been amended on 18 November 2013 such that the term of the Continuing Connected Transactions will be extended for an additional three years commencing from 1 January 2014 to 31 December 2016. The Company has also assigned the New Caps in respect of the Continuing Connected Transactions for each of the three financial years ending 31 December 2016.

As at the Latest Practicable Date, 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 and the Continuing Connected Transactions will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Given that the New Caps in respect of the Continuing Connected Transactions represent 5% or more of the applicable percentage ratios as defined in the Listing Rules, the Continuing Connected Transactions constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and are subject to (i) the annual review requirements under Rule 14A.37 to 14A.40 of the Listing Rules; (ii) the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules; and (iii) the Independent Shareholders' approval requirements under Rule 14A.48 of the Listing Rules. BOC and its associates are required to abstain from voting at the EGM in relation to the resolutions in respect of the Continuing Connected Transactions.

#### II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of (i) seven executive and non-executive Directors, namely 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 and Mr. Gao Yingxin; and (ii) five independent non-executive Directors, namely Dr. Fung Victor Kwok King, Mr. Koh Beng Seng, Mr. Ning Gaoning, Mr. Shan Weijian and Mr. Tung Savio Wai-Hok.

The Independent Board Committee comprising five independent non-executive Directors, namely Dr. Fung Victor Kwok King, Mr. Koh Beng Seng, Mr. Ning Gaoning, Mr. Shan Weijian and Mr. Tung Savio Wai-Hok, has been established to advise the Independent Shareholders on the fairness and reasonableness of the Continuing Connected Transactions (including the relevant New Caps) and whether the Continuing Connected Transactions (including the relevant New Caps) are in the interests of the Company and the shareholders as a whole.

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

Apart from the normal advisory fee payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company.

### III. BASIS AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied solely on the statements, information, opinions and representations provided to us by the Company and/or its management staff (the "Management") and/or the executive Directors. We have assumed that all such statements, information, opinions and representations provided or made or given by the Company and/or the Management and/or the executive Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of this letter. We have assumed that all the opinions and representations made or provided by the Management and/or the executive Directors to us have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Management and/or the executive Directors that no material facts have been omitted from the information provided. We consider that we have reviewed sufficient currently available information and documents which are made available to us to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion.

We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or the Management and/or the executive Directors or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification of the information provided, nor have we conducted any independent investigation into the businesses and affairs of the Company, BOC or any of their respective members.

### IV. PRINCIPAL FACTORS AND REASONS CONSIDERED

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

#### 1. *Background information of the Group and BOC*

##### 1.1. *Background of the Group*

The Group is a leading commercial banking group in Hong Kong and one of the three note issuing banks in Hong Kong. As at the end of September 2013, the Group had over 260 branches in Hong Kong, with these channels, the Group offers a comprehensive range of financial products and services to individual and corporate customers. BOCHK is appointed by the People's Bank of China as the clearing bank for Renminbi ("RMB") business in Hong Kong and has been authorised as the clearing bank of RMB banknotes business for the Taiwan region since July 2010.

With regard to the strategy of the Group, we note from the Group's 2013 interim report for the six months ended 30 June 2013 that the Group intends to stay vigilant of market developments and continue to pursue the balanced growth strategy. In view of closer integration between Hong Kong and the PRC, the Group has seen increasing demand for cross-border banking services over the past years. The close collaboration with BOC to provide one-stop services to cater to the global needs of leading corporate customers has proved to be successful in capturing new business and securing quality customers. Having invested considerable resources in enhancing the platform to provide efficient cross-border services and focused on driving innovation in cross-border trade finance products, the Group intends to broaden its product and service scope and work closely with BOC to reinforce its competitive edge in the cross-border banking business. Moreover, as the Group has witnessed the robust and healthy development of the offshore RMB markets with RMB transactions becoming more prevalent around the world over the past years, the Group will continue to exploit more business opportunities capitalising on its strong RMB franchise and persist in upgrading and optimising its product platform to meet the growing RMB banking needs where the close collaboration with BOC and its overseas branches would facilitate the Group to capture the emerging market opportunities.



1.2. *Background of BOC*

BOC, being one of the largest state-owned commercial banks in the PRC, is listed on both the Shanghai Stock Exchange and the main board of the Stock Exchange. BOC and its subsidiaries provide a comprehensive range of corporate banking, personal banking, treasury operations, investment banking, insurance and other services to its customers in the PRC, Hong Kong, Macau, Taiwan and other countries.

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

The Continuing Connected Transactions are governed by the Services and Relationship Agreement and/or other specific agreements. Pursuant to the terms of the Services and Relationship Agreement and in relation to each of the Continuing Connected Transactions, BOC has agreed to enter into, and to procure its associates to enter into all arrangements with the Group on an arm's length basis on normal commercial terms and at rates no less favourable than those offered to independent third parties. At the same time, the Company has agreed to enter into, and to procure its subsidiaries to, enter into all arrangements on the same basis, provided that the rates offered by the Group to the relevant connected parties will be no more favourable than those offered to independent third parties. The Services and Relationship Agreement (as amended) will be extended for three additional years commencing from 1 January 2014.

3. ***The Investment Connected Transactions***

3.1. *Securities transactions*

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

The securities-related services provided by the Group are executed through its brokerage system. Such securities-related services are primarily initiated at the request of its customers. We understand from the Management that the Group currently executes its securities-related transactions through two brokerage houses, being BOCI Securities and one of the wholly owned subsidiaries of the Group. 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 (subject to transaction type), to BOCI Securities. Management has advised that the percentage of commission shared by BOCI Securities was negotiated on the principles of fair price and market price which is considered by the Management to be in line with market practice.

We have obtained and reviewed (i) the execution services agreement and the relevant amendments (the "**Execution Services Agreement**") entered into between the Group and BOCI Securities; (ii) samples of securities transactions entered into by the Group with BOCI Securities; and (iii) samples of securities transactions entered into by the Group with independent third parties. We note that the relevant terms (including payment terms) of securities transactions entered into between the Group and BOCI Securities are in line with both the terms pursuant to the Execution Services Agreement, and are no less favourable than those with independent third parties. Based on the above, we concur with the Management that the percentage of commission shared by BOCI Securities is in line with market practice as such commission was negotiated on the principles of fair price and market price between the Company and BOCI Securities.

We understand from the Management that in order to ensure that terms under the Execution Services Agreement to be entered between the Group and BOCI Securities are in line with the market or no less favourable than those with independent third parties, the Group would compare the market rates of comparable securities transactions before entering into the Execution Services Agreement. The Group will also review the transactions under the Execution Services Agreement regularly to ensure such transactions are executed in line with the terms set out under the Execution Services Agreement. Based on the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanism in place to ensure the percentage of commission shared by BOCI Securities is in line with market rate.

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



### 3.2. *Fund distribution transactions*

We understand from the Management that during its ordinary course of business, the Group may provide fund distribution services to fund suppliers (including BOCI-Prudential Asset Management) from time to time. The Group, as an intermediary between fund suppliers and fund subscribers, promotes and markets various fund products, such as guaranteed fund and open-ended fund products. With regards to the abovementioned services, the Group receives a commission on the basis of a certain percentage of the subscription fee and management fee received by the fund suppliers in relation to the funds. All fees and commissions payable by fund suppliers (such as BOCI-Prudential Asset Management) are calculated with reference to the prevailing market rates and the underlying transaction volumes based on an agreed fee schedule which is maintained and updated by the Group's global markets department, which is responsible for the fund distribution transactions from time to time, with reference to factors including, but not limited to, (i) changes to market environment; and (ii) the Group's relationship with individual fund suppliers.

We understand from the Management that in order to ensure that terms under the relevant distribution agreements to be entered between the Group and BOCI-Prudential Asset Management are in line with the market or no less favourable than those with independent third parties, the Group would compare the market rates of comparable fund distribution transactions before entering into the relevant distribution agreements. The Group will also review the transactions under the relevant distribution agreements regularly 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 abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanism in place to ensure the commission received by the Group is in line with market rate.

With regard to our assessment of the fund distribution transactions, we have obtained from the Management samples of distribution agreements between the Group and BOCI-Prudential Asset Management as well as with other independent fund suppliers. Based on the samples reviewed, we note that the range of commission rates (including payment terms) charged by the Group to BOCI-Prudential Asset Management are in line with the range of commissions (including payment terms) charged by the Group to other independent fund suppliers for similar types and size of assets under management with payment terms offered to BOCI-Prudential Asset Management being no more favourable than those offered to independent fund suppliers.

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

### 3.3. *Insurance agency*

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

A broad range of general insurance products are offered by BOC Insurance, including accident and health, property damage and general liability. BOCG Life offers a range of life insurance products, including, among others, endowments, annuities and whole-life protection plans. Based on statistics published by the Office of the Commissioner of Insurance of the Hong Kong Government, BOC Insurance had a market share of approximately 4.2% of Hong Kong's general insurance market and was ranked fifth largest general insurer in terms of overall gross premiums for general insurance in 2012. BOCG Life had a market share of approximately 10.3% of Hong Kong's long term insurance market and was ranked fourth largest long term insurer in terms of direct new business for individual business in 2012. As advised by the Management, general insurance products can be customised and due to the nature of the general insurance business, each insurance policy must be underwritten separately according to a number of actuarial assumptions, such as the number of participants in the policy, the risk profile of the participant(s) on an individual level and aggregate level (for group insurance), as well as the insurance coverage. These factors may have a bearing on the premium to be charged against the policy holder, which would in turn affect the commission to be charged by the agent. Comparatively, life insurance products are more standardised. Furthermore, we also note that the Office of the Commissioner of Insurance regulates the insurers and insurance intermediaries in Hong Kong.

We have discussed with the Management and note that the terms (including payment terms) of the insurance agency transactions were determined after arm's length negotiations and each of them has been entered into in accordance with the existing policy and internal guidelines. We have reviewed samples of the insurance agency transaction summary provided by the Management and note that the principal terms (including payment terms) of these insurance agency transactions with BOC Insurance and BOCG Life are no less favourable than those with independent insurance companies with a similar type of insurance coverage.

We understand from the Management that in order to ensure that terms under the relevant agency agreements to be entered between the Group and BOC Insurance and BOCG Life are in line with the market or no less favourable than those with independent third parties, the Group would compare the market rates of comparable insurance agency transactions before entering into the relevant agency agreements. The Group will also review the transactions under the relevant agency agreements regularly to ensure such transactions are executed in line with the terms set out under the relevant agency agreements. Based on the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanism in place to ensure the commission payments received by the Group is in line with market rate.

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

#### **4. Inter-bank Connected Transactions**

##### *4.1. Foreign exchange transactions*

The Group may from time to time and during the ordinary course of its business enter into foreign exchange transactions with BOC and its associates as well as independent third parties. These foreign exchange transactions are executed with reference to prevailing market rates and may include spot, forward and outright transactions, and exercised currency options. We note that such transactions are entered into for the purpose of foreign exchange risk management and in response to customer-driven transactions.

Revenue (i.e. trading income) of the Group derived from foreign exchange transactions is generated from price differences in foreign exchange trades with customers and with interbank counterparties in the foreign exchange market.

Based on our discussion with the Management, we note that the Group typically executes 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 banknote exchange transactions), the design and operation of which complies with the Group's risk management and information technology security policies. The operation of the abovementioned centralised system is subject to periodic review by both internal and external auditors. In addition, with a view to ensuring that foreign exchange transactions are executed at the prevailing market rates, the executed price of all foreign exchange transactions are monitored by the product control unit of the Group. Based on the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanism in place to ensure the foreign exchange transactions are executed at the prevailing market rates.

The Management has provided and we have reviewed samples of foreign exchange transactions entered into between the Group and BOC and transactions entered into with independent financial institutions, and note that each reviewed sample of the foreign exchange transactions was entered into with reference to the prevailing market rates, respectively and with payment terms which are no less favourable than those offered by the Group to independent financial institutions. In addition, we have compared the rates of the foreign exchange transactions entered into between the Group and BOC with the relevant market rates as quoted from Bloomberg and note that they were in line with the range of market rates. Furthermore, we have reviewed samples of the daily check-in records by the product control unit of the Group and note that transactions set out therein were carried out within the range of market rates. Based on the above, we consider the Group's foreign exchange transactions with BOC are made on normal commercial terms and on terms no less favourable than those made with independent financial institutions.

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

### 4.2. *Derivatives transactions*

During 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, including interest rate swaps, cross currency interest rate swaps, foreign exchange options and bond options and others. These transactions are executed with reference to the prevailing market price and are entered into for reasons such as 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.

Similar to foreign exchange transactions, revenue (trading income) of the Group derived from derivatives transactions is generated from the price differences of the trades between customers and the Group, and the mark-to-market gain / losses of all outstanding contracts.

Based on our discussion with the Management, we note that the derivatives transactions are processed and controlled in the same manner as the foreign exchange transactions. The derivatives transactions are processed through the same centralised system, the design and operation of which complies with the Group's risk management and information technology security policies and is subject to periodic review by both internal and external auditors. Furthermore, all derivatives transactions are monitored daily by the product control unit of the Group to ensure that they have been executed at the prevailing market rates. Based on the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanism in place to ensure the foreign exchange transactions are executed at the prevailing market rates.

We have reviewed samples of derivatives transactions entered into between the Group and BOC as well as with independent financial institutions and note that each of the sample derivatives transactions was entered into with reference to the relevant prevailing market rates and with payment terms which are no less favourable than those offered by the Group to independent financial institutions. Furthermore, we have reviewed samples of the daily check-in records by the product control unit of the Group and note that transactions set out therein were carried out with reference to prevailing market rates. Based on the above, we consider the Group's derivatives transactions with BOC are made on normal commercial terms and on terms no less favourable than those made with independent financial institutions.

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

### 4.3. *Trading of financial assets*

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, forfeitings and other similar types of financial assets.

We understand from the Management that the trading of financial assets is primarily for risk management purposes and to maintain adequate liquidity level. We have discussed with the Management and understand that the terms of all trading of financial assets transactions are determined with reference to the relevant prevailing market rates, which are monitored and reviewed by the Group in order to ensure the trading of financial assets transactions are executed at the prevailing market rates. Based on the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanism in place to ensure the trading of financial assets transactions are executed at the prevailing market rates.

In the course of assessing the trading of financial assets transactions, we have obtained from the Management samples of transaction records and relevant agreements entered into by the Group. Based on our review of the sample agreements, we note that the terms (including payment terms) of the trading of financial assets transactions between the Group and BOC are no less favourable than similar transactions with independent financial institutions.

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

## LETTER FROM INVESTEC CAPITAL ASIA LIMITED

### 4.4. *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.

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

We understand from the Management that all inter-bank capital market transactions (including off-market rate transactions) are determined with reference to the relevant prevailing market rates, which are monitored and reviewed by the product control unit of the Group in order to ensure that they have been executed at the prevailing market rates. Based on the abovementioned review and control measures adopted by the Group, we concur with the Management that the Group has the appropriate mechanism in place to ensure the inter-bank capital market transactions are executed at the prevailing market rates.

In addition, we have obtained and reviewed (i) samples of the inter-bank capital markets transactions entered into between the Group and BOC; and (ii) samples of inter-bank capital markets transactions entered into by the Group with independent third parties. We note that the rates of the inter-bank capital markets transactions entered into between the Group and BOC were in line with the then prevailing market rates and the principal terms (including payment terms) of such inter-bank capital market transactions with BOC are no less favourable than those with independent third parties. Based on the above, we consider the Group’s transactions of inter-bank capital markets with BOC are made on normal commercial terms and on terms no less favourable than those made with independent third parties.

### 5. *The New Caps*

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

Cap amount in HK\$ million For the year ended/ending 31 December	Historical Caps			New Caps		
	2011	2012	2013	2014	2015	2016
<b>Investment Connected Transactions</b>						
Securities transactions	3,500	5,000	7,500	4,500	7,000	10,000
Fund distribution transactions	3,500	5,000	7,500	4,500	7,000	10,000
Insurance agency	3,500	5,000	7,500	4,500	7,000	10,000
<b>Inter-bank Connected Transactions</b>						
Foreign exchange transactions	3,500	5,000	7,500	4,500	7,000	10,000
Derivative transactions	–	–	–	4,500	7,000	10,000
Trading of financial assets	100,000	150,000	250,000	150,000	230,000	350,000
Inter-bank capital markets	100,000	150,000	250,000	150,000	230,000	350,000

## LETTER FROM INVESTEC CAPITAL ASIA LIMITED

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

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

A summary of the historical transaction amounts, annual caps and utilisation for each type of the Investment Connected Transactions and Inter-bank Connected Transactions is presented as follows:

In HK\$ million unless otherwise specified, approximately

For the year ended 31 December	2011			2012			2013		
	Historical amount	Annual cap	Utilisation (%)	Historical amount	Annual cap	Utilisation (%)	Annualised utilisation amount (Note 1)	Annual cap	Estimated utilisation (%)
<b>Investment Connected Transactions</b>									
Securities transactions	319	3,500	9.1%	226	5,000	4.5%	235	7,500	3.1%
Fund distribution transactions	35	3,500	1.0%	39	5,000	0.8%	46	7,500	0.6%
Insurance agency	646	3,500	18.5%	589	5,000	11.8%	844	7,500	11.3%
	<u>1,000</u>			<u>854</u>			<u>1,125</u>		
<b>Inter-bank Connected Transactions</b>									
Foreign exchange transactions	106	3,500	3.0%	195	5,000	3.9%	254	7,500	3.4%
Derivative transactions (Note 2)	0	–	NA	4	–	NA	40 (Note 3)	–	NA
Trading of financial assets	5,638	100,000	5.6%	8,207	150,000	5.5%	9,921	250,000	4.0%
Inter-bank capital markets	2,601	100,000	2.6%	1,713	150,000	1.1%	7,470	250,000	3.0%
	<u>8,345</u>			<u>10,119</u>			<u>17,685</u>		

#### Notes

- (1) the annualised figures based on the historical transactions amount for the eight months ended 31 August 2013.
- (2) given that the relevant percentage ratios for the derivatives transaction for each of the three years ended 31 December 2011, 2012, 2013 were less than 0.1%, such continuing connected transactions were de minimis transactions pursuant to Rule 14A.33(3) under the Listing Rules. Therefore, no historical annual caps for the derivatives transactions were set for each of the three years ended 31 December 2011, 2012 and 2013.
- (3) this amount represents derivative transactions for the eight months ended 31 August 2013.

#### i. Investment Connected Transactions

According to the table above, we note that the utilisation of historical annual caps of each of the securities, fund distribution and insurance agency transactions was (i) approximately 9.1%, 1.0% and 18.5% for the year ended 31 December 2011, respectively; and (ii) approximately 4.5%, 0.8% and 11.8% for the year ended 31 December 2012, respectively.

We note from the Company that securities and fund distribution transactions are generally initiated by customers or on the customers' decisions according to their wealth management portfolio (e.g. stock, trust fund and others) which are not subject to the Group's control and are not possible to anticipate. We have discussed with the Management and note that the low utilisation in respect of the historical securities transactions and fund distribution transactions caps were due to, among other reasons, (i) the decrease in trading turnover of the Hong Kong stock market in 2012; (ii) the decrease in amount of equity fund raised in Hong Kong's capital market from 2010 to 2012; and (iii) a buffer having been built in with the intention to cater for any changes in the global financial market.

Based on our review of the statistics published on the website of the Stock Exchange, we note that the daily average trading turnover of the Hong Kong stock market was approximately HK\$68.6 billion, HK\$69.5 billion and HK\$53.7 billion for 2010, 2011 and 2012, respectively. The amount of equity fund raised on Hong Kong's capital market was approximately HK\$845.5 billion, HK\$482.8 billion and HK\$300.2 billion for years ended 31 December 2010, 2011 and 2012, respectively, which partly contributed to the low utilisation of the relevant historical annual caps in the past.

With regard to insurance agency transactions, we note that these transactions are primarily driven by customers' demand for insurance in relation to which the Group has no control over the volume and amounts. We understand from the Management that historically low utilisation of insurance agency transactions caps was due to, among other reasons, lower than expected growth rate recorded by Hong Kong's insurance market from 2010 to 2012. According to the Office of the Commissioner of Insurance, the gross premiums of the Hong Kong insurance industry increased by approximately 14.0% in 2011 and approximately 12.7% in 2012, respectively. Looking forward, the Management is optimistic about the growth of the Hong Kong insurance market in the foreseeable future.

ii. *Inter-bank Connected Transactions*

According to the table above, we note that the utilisation of historical annual caps of the foreign exchange transactions, trading of financial assets and inter-bank capital markets were (i) approximately 3.0%, 5.6% and 2.6%, respectively, for the financial year ended 31 December 2011; and (ii) approximately 3.9%, 5.5% and 1.1%, respectively, for the financial year ended 2012. The historical revenue derived from derivatives transactions was within the de minimis thresholds under the relevant Listing Rules.

We note that foreign exchange transactions are mainly initiated by foreign exchange trades with customers and with inter-bank counterparties in the foreign exchange market, which are subject to (i) international trade exchanges volume; and (ii) movement of currencies. We discussed with the Management and understand that the low utilisation of the foreign exchange transactions cap was due to (i) the lower than expected growth rate of international trades over the past few years due to the global economy; and (ii) a buffer having been built with the intention to cater for any unexpected changes in the global financial market.

However, the Management is of the view that following the continuous growth of RMB offshore business and cross-border trade settlement, the volume of the foreign exchange transaction is expected to increase significantly. According to statistics published by the Bank of International Settlement in September 2013, trading in foreign exchange markets averaged US\$5.3 trillion per day in April 2013, from US\$4.0 trillion in April 2010. With approximately 87% of trades being settled in US dollars in April 2013, the Management is of the view that RMB, being the ninth most actively traded currency in the first nine months of 2013, with approximately 2.2% in global foreign exchange by volume, has significant growth potential.

We note that the trading of financial assets transactions of the Group is entered into for the purpose of risk management of assets and to maintain adequate liquidity level. In the event the relevant transaction amount exceeds its annual cap, the Group is required to seek for Independent Shareholders' approval of the relevant annual cap, which would cause significant delay to the entering into of such transactions, and the Group, accordingly, would not be able to enter into such transactions for risk management purposes. We have discussed with the Management and understand that the low utilisation of trading of financial assets cap was mainly due to the Group's needs and the buffer was necessary to maintain sufficient level of capacity to cater for any changes in market conditions in order to ensure the above mechanisms can work properly.

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



*iii. Our view*

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

In view of the above, we concur with the Management that the historical transaction amounts of the Continuing Connected Transactions may not be an appropriate reference to determine the expected value of each type of the transactions for the each of the three years ending 31 December 2016.

*5.2. Business expansion of the Group*

The Management has advised that as well as to cater for the market-driven and unpredictable nature of the transactions, when determining the New Caps, factors such as the business expansion of the Group, in particular the co-operation activities with BOC, have also been considered. As disclosed in the Company's annual report for the year ended 31 December 2012, the Group remains focused on driving its business development and capturing new opportunities, especially in the offshore RMB business. In 2012, leveraging the opportunities from the "Cross-boundary RMB Loan Trial Scheme in Qianhai", the Group swiftly launched its cross-border RMB loan business and signed agreements with five enterprises registered in Qianhai to provide them with cross-border RMB direct loans. In addition, with potential regulatory relaxation in the offshore RMB market, the Group intends to continue the development of its offshore RMB business. During 2012, the Group launched three new offshore RMB bond sub-indices, which not only garnered more market recognition for the Group but also strengthened its position in the offshore RMB market.

With the extension of offshore RMB services to non-Hong Kong residents from August 2012, the Group was one of the first banking institutions to provide a comprehensive range of RMB products. In line with the extension of the operating hours of the RMB Real Time Gross Settlement System in Hong Kong, the Group, as the RMB clearing bank, extended service hours of the clearing function since June 2012. This enabled participating banks in different time zones to conduct RMB clearing services more conveniently. More importantly, with further cooperation with its parent bank, BOC, the Group will enhance its financial service capabilities for global customers and jointly expand an even broader offshore RMB business market.

In view of the above, the Management expects the Group to continue to strengthen its co-operation relationship with BOC. The annual caps for each of the Continuing Connected Transactions were determined to allow a certain degree of flexibility for the Group to conduct more business transactions with BOC and its associates for each of the three years ending 31 December 2016.

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

According to statistics from the World Bank, both the PRC and Hong Kong economies exhibited growth in each of 2011 and 2012, respectively. The gross domestic products (the "GDP") of the PRC grew at approximately 9.3% per annum in 2011 and approximately 7.8% per annum in 2012 and increased from approximately US\$7,321.9 billion in 2011 to approximately US\$8,227.1 billion in 2012. Hong Kong's GDP grew at approximately 4.9% per annum in 2011 and approximately 1.5% per annum in 2012 and increased from approximately US\$248.7 billion in 2011 to approximately US\$263.3 billion in 2012.

The trade exchange between the PRC and Hong Kong has been extensive in recent years. According to a publication by Hong Kong Trade Development Council (the "HKTDC") in August 2013, Hong Kong was the PRC's second largest trading partner (after the United States) in 2012 and bilateral trade between PRC and Hong Kong amounted to approximately US\$342 billion (being approximately 8.8% of the total external trade of the PRC) in 2012. According to statistics published by the HKTDC, the total amounts of exports from Hong Kong into the PRC for the first six months of 2013 was approximately US\$117 billion, representing an increase of approximately 5.7% compared with the same period in 2012. The total amount of imports into Hong Kong from the PRC for the first six months of 2013 was approximately US\$116 billion, representing an increase of approximately 7.8% compared with the same period in 2012.

Accordingly to “Half Yearly Monetary and Financial Stability Report” published by the HKMA in March 2013, the debt market has registered fast growth, particularly with private sector debt issuance. The RMB debt market in Hong Kong expanded in 2012 with a number of positive developments including an increasingly more diversified mix of issuers, longer maturity of debt issued and better credit quality of bonds. At the end of 2012, RMB loans extended by banks in Hong Kong, increased by approximately 156.6% to approximately RMB79.0 billion as compared to the end of 2011. In addition, the funding structure of banks’ RMB businesses has continued to evolve. The issuance of RMB certificates of deposits (“CDs”) as a means to tap RMB funds has increased. In 2012, the amount of outstanding CDs increased by approximately 60.5% to approximately RMB117.3 billion.

Furthermore, the PRC government introduced a pilot scheme for cross-border trade settlement in 2009 and its expansion in 2010 represents another notable development of the offshore RMB business in Hong Kong. Currently, the scheme has been expanded to 20 provinces and those cities in the PRC have the option to settle their trade transactions in RMB with any part of the world. The list of eligible enterprises have also expanded, increasing the number of PRC enterprises that can settle merchandise exports in RMB from 365 to 67,359 according to the statistics from the HKMA. According to the website of BOC, in connection with the pilot cross-border trade RMB settlement, BOC has accumulatively handled more than RMB6 trillion of cross-border RMB settlements in the past four years (i.e. from 2009 – 2013), of which RMB1.6 trillion was attained from January 2013 to June 2013. This represents an increase of approximately 56% as compared to the same period in 2012. Domestic branches of BOC achieved a volume of over RMB780 billion in cross-border RMB settlement, maintaining a domestic market share of approximately 30%.

The Management is therefore of the view that trade exchanges between the PRC and Hong Kong will become more extensive and that the abovementioned PRC government policy will stimulate the growth of the offshore RMB business, which in turn will increase the transactions between BOC and the Group.

#### 5.4. *Basis for determining the New Caps*

We note that the proposed annual caps for the year ending 31 December 2014 for each of the Investment Connected Transactions, the foreign exchange transactions and the derivatives transactions are primarily based on 5% of the revenue of the Group (being the benchmark figure adopted internally by the Company with reference to the Company’s experience in similar transactions and which the Company considers reasonable given the volatility of the capital markets) of approximately HK\$57.7 billion for the year ended 31 December 2012, after taking into account the average growth rate of the Group’s revenue for the five years ended 31 December 2012 of approximately 4.78% and 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 applied on the annual cap for the year ending 31 December 2014 to set the respective annual caps for each of the aforementioned types of Continuing Connected Transactions.

We also note that the proposed annual caps for the year ending 31 December 2014 in relation to each of the trading of financial assets and the inter-bank capital markets transactions is primarily set with reference to 5% of the total assets of the Group (adjusted to take into account the payment of the final dividend for the year ended 31 December 2012 of approximately HK\$7.3 billion) of approximately HK\$1,823.4 billion 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), after taking into account the average growth rate of the Group’s total assets for the five years ended 31 December 2012 of approximately 13% and 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 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.

We also note there may be potential volatilities in financial markets as a result of changes in economic and fiscal policies in the years ahead. After years of low interest rate environment following the 2008 global financial crisis, there has been increasing speculation of changes in US fiscal policy and in particular, the proposed tapering of asset purchases by the US Government, which may potentially impact interest rates and in turn, global financial markets. Japan is also entering into a new era with its new economic policy platform being rolled out by the new Japanese Government.

Any fundamental policy changes in the US would certainly affect activities in world financial markets. Given Hong Kong’s currency peg to the US dollar and its position as a leading international trading and financial center, any such changes would have significant knock on effects on the trading volumes and activities of the Hong Kong Stock Exchange. Reflecting on the Group’s prior experience in 2006 and 2007, where the annual caps of the Group’s continuing connected transactions fell short of the requirements of the underlying business, we agreed that it would be prudent for the Group to set the new annual caps with reference to the existing levels together with annual increments in cap amount over time.



We have discussed with the Company the basis for determining the New Caps and have reviewed the relevant internal estimations in relation to the Continuing Connected Transactions for the three financial years ending 31 December 2016. We understand that each of the New Caps is based on (i) the relevant internal estimation for each of the Continuing Connected Transactions for the three financial years ending 31 December 2016; (ii) the expected business expansion of the Group as discussed above; and (iii) a buffer to cater for any unexpected changes in the financial markets.

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

Furthermore, we have also reviewed the basis of determining annual caps for continuing connected transactions of a similar nature by Hong Kong listed commercial banking groups of similar size and status (i.e. being a note issuing bank in Hong Kong) and noted that one such banking institution (the "**Banking Institution**") also has continuing connected transactions (including certain banking transactions such as foreign exchange transactions, derivatives and financial markets transactions, capital markets dealing transactions, fund management services, securities services and insurance transactions) with its connected person which may be of a similar nature to the Continuing Connected Transactions. Based on information set out in the relevant announcement of the Banking Institution, we note that the Banking Institution has also sighted that the volume and aggregate value of each of these transactions varies from time to time and from year to year depending on a number of factors (including the range of banking products and services offered by the Banking Institution, and fluctuations in financial markets and economic conditions), therefore it would be difficult to estimate an aggregate annual value for each of the transactions.

### 5.5. *Our view*

Having considered (i) the historical amount of the Continuing Connected Transactions may not be an appropriate reference in determining the New Caps; (ii) the range of products and services on offer and to be introduced by the Group may be extended, subject to, among others, regulatory policies and market demand; (iii) certain categories of the Continuing Connected Transactions are price sensitive to market rates and required to be executed in a short time frame; (iv) the Continuing Connected Transactions are primarily market driven and can be unpredictable (evidenced by the Group's prior experience in revising the relevant cap amount for the inter-bank capital markets transactions and the securities transactions due to unforeseen increase in transaction amounts in 2006 and 2007, respectively) and the obligation to seek independent shareholders' approval to renew the New Caps, in the event that the New Caps are exceeded, may cause unnecessary disruption and/or delay to these Continuing Connected Transactions and the operations of the Group; (v) the strategy of the Company to expand its market presence to both overseas and the PRC, of which may require the Group to work closer with BOC and its associates in business areas mentioned above; (vi) the financial markets may be subject to potential volatilities as a result of changes in economic and fiscal policies in the coming years given the low interest rate environment following the 2008 global financial crisis, increasing speculation of changes in US fiscal policy and in particular, the proposed tapering of asset purchases by the US Government, and (vii) a buffer to cater for potential business growth of the Group, any unexpected changes in the financial markets and economic conditions, and to allow a certain degree of flexibility for the Group to conduct more business transactions with BOC and its associates, subject to the terms of the respective agreements, for each of the three years ending 31 December 2016, we consider that it is reasonable for the Group to adopt the abovementioned bases in determining the New Caps and are of the view that the New Caps are fair and reasonable as well as in the interests of the Company and the shareholders as a whole.

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

**V. RECOMMENDATION**

After having considered the above principal factors, namely:

- (i) the background information of the Group and BOC;
- (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) recent PRC government policies and the Group's expansion plan to stimulate the business growth of the Group; and
- (v) reasons of under-utilisation for the historical annual caps set out under paragraph "5.1 Utilisation of historical annual caps in relation to the Continuing Connected Transactions",

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

Yours faithfully  
For and on behalf of  
**Investec Capital Asia Limited**

**Alexander Tai**  
*Managing Director*  
*Head of Corporate Finance*

## APPENDIX – GENERAL INFORMATION

### 1. RESPONSIBILITY STATEMENT

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

### 2. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. TIAN Guoli, Mr. LI Lihui and Mr. LI Zaohang, non-executive Directors of the Company, are also executive directors of BOC. Mr. CHEN Siqing, also a non-executive Director of the Company, is an executive vice president of BOC.

BOC is a joint stock commercial bank with limited liability, established under the laws of the PRC, providing a full range of commercial banking and other financial services through its associates throughout the world. Certain of the Group's operations overlap with and/or are complementary to those of 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, the Directors were not aware that any of them or any of their associates had interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

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

As at the Latest Practicable Date, the Directors, the chief executive of the Company and their respective associates had the following interests in the Shares and underlying shares of the Company, which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules:

Name of Director	Number of shares/underlying shares held				Total	Approximate % of the issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
HE Guangbei	100,000	–	–	–	100,000	0.0009%
NING Gaoning	–	25,000 <sup>Note</sup>	–	–	25,000	0.0002%
Total	100,000	25,000	–	–	125,000	0.0011%

*Note: Such shares are held by the spouse of Mr. NING Gaoning.*

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.

## APPENDIX – GENERAL INFORMATION

### 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 2012 (the date to which the latest published audited consolidated financial statements of the Company were made up), (i) acquired or disposed of by; (ii) leased to; or (iii) are proposed to be acquired or disposed of by; or (iv) are proposed to be leased to any member of the Group.

### 5. SERVICE CONTRACTS

No Director has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation other than the normal statutory compensation.

### 6. EXPERTS

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

<u>Name</u>	<u>Qualification</u>
Investec Capital Asia Limited	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)

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

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

As at the Latest Practicable Date, Investec Capital Asia Limited does not have any direct or indirect interest in any assets which had been since 31 December 2012 (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 2012, 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.

## APPENDIX – GENERAL INFORMATION

### 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 52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong from the date of this circular up to and including the date which is 14 days from the date of this circular:

- (a) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 12 of this circular;
- (b) the letter from Investec Capital Asia Limited, the text of which is set out on pages 13 to 25 of this circular; and
- (c) the Services and Relationship Agreement and its amendment letter dated 18 November 2013.