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**恒生銀行**  
**HANG SENG BANK**

**(Stock code: 11)**

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## **ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS**

### **Renewal of continuing connected transactions**

Reference is made to the Company's announcement dated 21 June 2013 in which the Company set caps under the Previous Management Services Agreement and the Previous Investment Management Agreement, for the period from 22 June 2013 to 21 June 2016 in accordance with the requirements of the Listing Rules.

As the Previous Management Services Agreement and the Previous Investment Management Agreement expire on 21 June 2016, HSIC and INHK have entered into the New Management Services Agreement and HSIC and AMHK have entered into the New Investment Management Agreement, each for another term of three years.

### **Entry into new continuing connected transaction**

On 21 June 2016, HSIC and HAIL entered into the PE Investment Management Agreement for a term of 11 years.

Pursuant to Rule 14A.52 of the Listing Rules, the Company has appointed an Independent Financial Adviser to explain why the PE Investment Management Agreement is required to be of a term exceeding three years and to confirm that it is normal business practice for agreements of this type to be of such duration.

### **Listing Rules implications**

INHK, AMHK and HAIL, all being indirect wholly-owned subsidiaries of HSBC, are connected persons of the Company by virtue of HSBC's indirect holding of shares in the Company, representing approximately 62.14% of the number of its shares in issue. The New

Management Services Agreement, the New Investment Management Agreement and the PE Investment Management Agreement are therefore continuing connected transactions of the Company.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in relation to the Annual Caps for the New Management Services Agreement is more than 0.1% but less than 5%, the New Management Services Agreement will be exempt from the independent shareholders' approval requirement, and will be subject only to the reporting, announcement and annual review requirements in respect of continuing connected transactions set out in Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Annual Caps for the New Investment Management Agreement, the Fee Caps for the PE Investment Management Agreement and the fees payable under the Fund Monitoring Agreement, on an aggregated basis, exceed 0.1% but are all less than 5%, the Aggregated Agreements are only subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

This announcement is being published pursuant to Chapter 14A of the Listing Rules.

## **BACKGROUND**

Reference is made to the Company's announcement dated 21 June 2013 in which it was mentioned that HSIC entered into the Previous Management Services Agreement and the Previous Investment Management Agreement and also set caps under them, for the period from 22 June 2013 to 21 June 2016 in accordance with the requirements of the Listing Rules.

As the Previous Management Services Agreement and the Previous Investment Management Agreement expire on 21 June 2016, HSIC and INHK have entered into the New Management Services Agreement and HSIC and AMHK have entered into the New Investment Management Agreement, each for another term of three years.

HSIC and HAIL have on the same date entered into the PE Investment Management Agreement setting out the terms upon which HAIL will act as investment manager in respect of certain private equity fund investments to be made by HAIL on behalf of HSIC.

INHK, AMHK and HAIL, all being indirect wholly-owned subsidiaries of HSBC, are connected persons of the Company by virtue of HSBC's indirect holding of shares in the Company, representing approximately 62.14% of the number of its shares in issue. The New Management Services Agreement, the New Investment Management Agreement and the PE Investment Management Agreement are therefore continuing connected transactions of the Company, under which annual caps are required to be set under Chapter 14A of the Listing Rules.

## **NEW MANAGEMENT SERVICES AGREEMENT**

On 21 June 2016, the New Management Services Agreement was entered into between HSIC and INHK setting out the terms upon which INHK, directly or through one or more of its

Affiliates, will provide certain management services to HSIC. An Annual Cap has been set in respect of the maximum amount payable under the New Management Services Agreement.

***Date***

21 June 2016

***Parties***

HSIC

INHK

***Term***

INHK will provide the management services to HSIC for a term of three years commencing from 22 June 2016. HSIC has the right to terminate the agreement during the term by giving six months' notice in writing.

***Services***

INHK will provide management services on the matters set out below:

- (a) risk management;
- (b) insurance business services;
- (c) high net worth services;
- (d) development of selected products;
- (e) actuarial and risk analytics services;
- (f) information technology and business recovery;
- (g) financial operations and control;
- (h) investment;
- (i) financial crime compliance services,

and such other management services as may be agreed from time to time by the parties.

The services will be provided based on an annual plan developed by HSIC and approved by the board of directors of HSIC, but otherwise in such manner as INHK shall regard as appropriate and agreed by HSIC taking into consideration the annual plan. The New Management Services Agreement provides that HSIC shall have an overriding right to instruct INHK as to which categories of services it provides from time to time, the form and manner in which those services are provided and the amount of such services. A significant reduction in services requested by HSIC will require HSIC to give a minimum of six months' notice.

### ***Price***

INHK will charge HSIC for the provision of the services on a fully absorbed cost basis plus a mark-up of 10% for actuarial and risk analytics services and 6% for all other services.

These charges have been determined following negotiation on an arm's length basis and in accordance with the policy of the HSBC Group, which takes into account OECD transfer pricing guidelines. The Directors consider that these charges are no less favourable to the Group than those which would be payable to independent third party service providers in respect of the provision of similar services.

### ***Limitation of liability***

The aggregate liability of INHK for all claims made under or in connection with the New Management Services Agreement is limited to the chargeable costs of the management services provided by INHK or any of its Affiliates in the preceding twelve months, save for claims resulting from an act or omission by INHK which constitutes wilful misconduct or fraud.

In addition, no action or claim may be brought by HSIC against INHK or any of its Affiliates except in respect of an act or omission of any such entity which constitutes gross negligence, wilful misconduct, breach of contract, breach of applicable law or fraud.

The Company considers the limitation of liability to be reasonably common in an agreement such as this and is comparable to similar management services agreements.

### ***Annual Cap***

The annual cap for the amount of fees payable to INHK under the New Management Services Agreement will be HK\$120 million for the period from 22 June 2016 to 31 December 2016, HK\$242 million for the year ending 31 December 2017, HK\$247 million for the year ending 31 December 2018, and HK\$126 million for the period from 1 January 2019 to 21 June 2019.

The aggregate amount paid under the Previous Management Services Agreement was approximately HK\$57 million for the period from 22 June 2013 until 31 December 2013, HK\$101 million for the year ended 31 December 2014, HK\$105 million for the year ended 31 December 2015, and HK\$65 million (estimated) for the period from 1 January 2016 to 21 June 2016.

The annual cap has been calculated and determined after taking into account the following:

- (a) the historic rate of growth in the fees paid under the Previous Management Services Agreement;
- (b) the projected growth in services to be provided under the New Management Services Agreement in light of business growth; and
- (c) a buffer (which the Company considers prudent) above the anticipated cost to INHK to provide flexibility in the event of higher than expected costs or a greater than expected demand for management services.

## **REASONS FOR AND BENEFITS OF THE NEW MANAGEMENT SERVICES AGREEMENT**

The New Management Services Agreement serves to continue the cost synergy that has been brought about by the economies of scale of INHK's operations. The Directors believe that this has enabled HSIC to run at a reasonably low cost structure by leveraging on the shared infrastructure and expertise of INHK. The resulting cost efficiency has contributed to increased competitiveness of HSIC's manufactured products in the market, which the Directors consider to be essential to the future business growth of HSIC.

The Directors (including the Independent Non-executive Directors) and the management of the Company consider that the entering into of the New Management Services Agreement is an efficient means to provide HSIC with the management and technical input it needs to carry on its business. The Directors (including the Independent Non-executive Directors) consider that the New Management Services Agreement, and the transactions contemplated thereunder, are made on normal commercial terms or better as compared with similar management services agreements and in the ordinary and usual course of business of the Group, and that the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **NEW INVESTMENT MANAGEMENT AGREEMENT**

On 21 June 2016, the New Investment Management Agreement was entered into between HSIC and AMHK setting out the terms upon which AMHK will act as investment manager in respect of certain of HSIC's assets held from time to time. AMHK has delegated to HAIL, an indirect wholly owned subsidiary of HSBC, the management of part of such assets as a bespoke portfolio. An Annual Cap has been set in respect of the maximum amount payable under the New Investment Management Agreement.

### ***Date***

21 June 2016

### ***Parties***

HSIC

AMHK

### ***Term***

AMHK will provide investment management services to HSIC for a term of three years commencing from 22 June 2016. Either party has the right to terminate the agreement during the term by giving to the other not less than three months' notice in writing.

### ***Price***

Subject to the Annual Caps, HSIC will pay, on a quarterly basis, to AMHK a fee of between 0.05% and 0.35% per annum of the mean value of the assets under management. Also subject to the Annual Caps, HSIC will pay to HAIL a fee of 0.5% per annum of the aggregate value of assets under management in a bespoke portfolio together with a performance fee of 10% per annum payable in certain circumstances in respect of the amount by which the return in

such portfolio exceeds a benchmark return of 8.0% annually. Such fees have been determined on an arm's length basis.

### ***Annual Cap***

The annual cap for the amount of fees payable by HSIC under the New Investment Management Agreement will be HK\$50 million for the period from 22 June 2016 to 31 December 2016, HK\$91 million for the year ending 31 December 2017, HK\$110 million for the year ending 31 December 2018, and HK\$77 million for the period from 1 January 2019 to 21 June 2019.

The aggregate amount paid under the Previous Investment Management Agreement was approximately HK\$36 million for the period from 22 June 2013 until 31 December 2013, HK\$39 million for the year ended 31 December 2014, HK\$38 million for the year ended 31 December 2015, and HK\$23 million (estimated) for the period from 1 January 2016 to 21 June 2016.

The annual cap has been calculated and determined after taking into account the following:

- (a) the historic rate of growth in fees paid under the Previous Investment Management Agreement;
- (b) the projected growth in new business and in the value of assets under management under the New Investment Management Agreement; and
- (c) a buffer (which the Company considers prudent) above the anticipated level of fees or a greater than expected demand for the investment management services.

### **REASONS FOR AND BENEFITS OF THE NEW INVESTMENT MANAGEMENT AGREEMENT**

The New Investment Management Agreement is based on the commercial terms set out in the Previous Investment Management Agreement and the Directors (including the independent non-executive Directors) believe that these terms should remain in place.

The Directors (including the Independent Non-executive Directors) consider that the New Investment Management Agreement, and the transactions contemplated thereunder, are made on normal commercial terms or better as compared with similar investment management agreements and in the ordinary and usual course of business of the Group, and that the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole.

### **PE INVESTMENT MANAGEMENT AGREEMENT**

On 21 June 2016, HSIC and HAIL entered into the PE Investment Management Agreement setting out the terms upon which HAIL will act as investment manager in respect of certain private equity fund investments to be made by HAIL on behalf of HSIC.

### ***Date***

21 June 2016

### ***Parties***

HSIC

HAIL

### ***Term***

HAIL will provide the PE Services to HSIC for a term of 11 years commencing from 22 June 2016, subject to extension by mutual agreement if the term of any Invested Fund is extended or if the investment period of the PE Investment Management Agreement is extended.

### ***Price***

Subject to the Fee Caps, HSIC will pay HAIL between 0.1% and 0.75% per annum of the aggregate value of assets under management as an annual retainer fee and annual management fee on an aggregate basis and, in order to ensure full alignment of interests between the two parties, a performance fee of 15% carried interest if certain hurdle rates of return are achieved for HSIC in respect of the investments made in each Vintage Period.

Such fees have been determined on an arm's length basis.

### ***Fee caps***

The proposed caps on the fees payable to HAIL under the PE Investment Management Agreement are as follows:

- (a) annual cap on retainer fee of US\$300,000 (approximately HK\$2,325,000);
- (b) annual cap on management fee of US\$2,000,000 (approximately HK\$15,500,000); and
- (c) cap on performance fee in respect of each Vintage Period (whenever paid) of US\$75,000,000 (approximately HK\$581,250,000).

The proposed Fee Caps have been calculated and determined after taking into account the following:

- (a) the aggregate amount to be invested and the investment strategy under the PE Investment Management Agreement;
- (b) the projected returns on investments per Vintage Period; and
- (c) a buffer (which the Company considers prudent) above the anticipated level of fees.

### **DURATION OF THE PE INVESTMENT MANAGEMENT AGREEMENT**

Pursuant to Rule 14A.52 of the Listing Rules, the term of an agreement for a continuing connected transaction of a listed issuer must not exceed three years except in special circumstances. As the term of the PE Investment Management Agreement exceeds three years, the Company has appointed the Independent Financial Adviser to explain why the PE Investment Management Agreement requires a term that is longer than three years and to confirm that it is normal business practice for investment management agreements relating to private equity investments to be of such duration.

In assessing the reasons why the duration of the PE Investment Management Agreement should be longer than three years, the Independent Financial Adviser has relied on the information set out in this announcement, and has considered the following factors based on its understanding from the management of the Company:

- (a) the nature of private equity investments and the PE Services requires that the duration of the PE Investment Management Agreement exceeds three years. Under the PE Investment Management Agreement, HAIL will act as investment manager in respect of certain investments into private equity funds to be made by HSIC for a term of 11 years until the investments are realised, which is expected to take the entire investment lifespan. To ensure continuity of ongoing management and reporting to be performed by HAIL, it is desirable for HSIC to have a sufficiently long term contract with HAIL to coincide with the lifespan of the private equity funds; and
- (b) HAIL will only receive the performance fee once the private equity funds have been realised and upon its return exceeding the hurdle rate as stipulated under the PE Investment Management Agreement. Since the realisation of the private equity funds is



## **REASONS FOR AND BENEFITS OF THE PE INVESTMENT MANAGEMENT AGREEMENT**

HSIC has decided to diversify its portfolio by increasing its private equity investments as part of its asset allocation strategy. By entering into the PE Investment Management Agreement with HAIL, HSIC is able to leverage HAIL's depth of experience in private equity investments and its expertise in customising investment strategies for clients based on their needs and risk appetites. Further, the structure of remuneration is designed such that a large part of the remuneration is derived from the performance of the investments made by HAIL, namely, the performance fee. This aligns the interests of both parties, as HAIL is rewarded for making profitable investments on behalf of HSIC.

HAIL currently provides fund monitoring and reporting services (but not investment management services) for certain private equity investments made by HSIC under the Fund Monitoring Agreement (see below) and therefore has a high level of understanding of HSIC's investment requirements. Based on information available to HSIC, HAIL also has a consistent track record of upper quartile performance since 2002, and the average internal rate of return on its past investments exceeds HSIC's requirements.

The Directors (including the Independent Non-executive Directors) consider that the PE Investment Management Agreement, and the transactions contemplated thereunder, is made on normal commercial terms or better as compared with similar investment management agreements and in the ordinary and usual course of business of the Group, and that the terms thereof are fair and reasonable and in the interests of the Company and its shareholders as a whole.

## **CONTINUING CONNECTED TRANSACTIONS**

INHK, AMHK and HAIL, all being indirect wholly-owned subsidiaries of HSBC, are connected persons of the Company by virtue of HSBC's indirect holding of shares in the Company, representing approximately 62.14% of the number of its shares in issue. Each of the New Management Services Agreement, the New Investment Management Agreement and the PE Investment Management Agreement is therefore a continuing connected transaction of the Company.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in relation to the Annual Caps for the New Management Services Agreement is more than 0.1% but less than 5%, the New Management Services Agreement is exempt from the independent shareholders' approval requirement, and is subject only to the reporting, announcement and annual review requirements in respect of continuing connected transactions set out in Chapter 14A of the Listing Rules.

The New Investment Management Agreement and the PE Investment Management Agreement both relate to fund investment management services provided by members of the HSBC Group to HSIC. The Company considers that for the purposes of calculating the applicable percentage ratios, the New Investment Management Agreement and the PE Investment Management Agreement should be aggregated with each other and with the Fund Monitoring Agreement between HSIC and HAIL and pursuant to which HAIL is paid a fee of 0.04% per annum of the value of funds invested by HSIC in the specified portfolio.

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Annual Caps for the New Investment Management Agreement, the Fee Caps for the PE Investment Management Agreement and the fees payable under the Fund Monitoring Agreement, on an aggregated basis, exceed 0.1% but are all less than 5%, the Aggregated Agreements are only subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

None of the Directors have a material interest in the entry into of the New Management Services Agreement, the New Investment Management Agreement and the PE Investment Management Agreement or have abstained from voting on the resolution of the Directors in relation to the approval of the entry into of the New Management Services Agreement, the New Investment Management Agreement and the PE Investment Management Agreement.

## **GENERAL**

The Company and its subsidiaries are principally engaged in commercial and retail banking business and offer a comprehensive range of financial products and services to the customers. HSBC and its subsidiaries are also principally engaged in commercial and retail banking business and offer a comprehensive range of banking and related financial services through an international network in the Asia-Pacific region, Europe, the Americas, the Middle East and Africa. INHK is an insurance underwriting company. The principal activities of AMHK are the management of client investment portfolios and provision of investment products and services. The principal activities of HAIL are provision of investment advice and investment management services for hedge funds, private equity and real estate funds.

This announcement is published pursuant to Rules 14A.35 and 14A.68 of the Listing Rules.

## **DEFINITIONS**

“**Affiliates**” means in relation to a party to the New Management Services Agreement, an entity which is a subsidiary, holding company or a subsidiary of the holding company of that party

“**Aggregated Agreements**” means the PE Investment Management Agreement, the New Investment Management Agreement and the Fund Monitoring Agreement

“**AMHK**” means HSBC Global Asset Management (Hong Kong) Limited (formerly named HSBC Investments (Hong Kong) Limited), a company incorporated in Hong Kong with limited liability

“**Annual Cap**” means the maximum aggregate annual value payable by HSIC under each of the New Management Services Agreement and the New Investment Management Agreement

“**Company**” means Hang Seng Bank Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 11)

“**connected person**” has the meaning ascribed to it under the Listing Rules

“**Directors**” means the directors of the Company

“**Fee Caps**” refers to the caps on the fees payable under the PE Investment Management Agreement, namely: (a) the annual retainer fee (b) the annual management fee and (c) the performance fee per Vintage Period

“**Fund Monitoring Agreement**” means the service agreement dated 12 December 2013 between HSIC and HAIL pursuant to which HAIL provides monitoring and reporting services in connection with a specified portfolio of private equity funds

“**Group**” means the Company and its subsidiaries

“**HAIL**” means HSBC Alternative Investments Limited, a company incorporated in England with limited liability

“**HK\$**” means Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region, the People’s Republic of China

“**HSBC**” means HSBC Holdings plc, a company incorporated in England and Wales with limited liability, the shares of which are listed on the Stock Exchange (Stock Code: 5)

“**HSBC Group**” means HSBC and its subsidiaries

“**HSIC**” means Hang Seng Insurance Company Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company

“**Independent Financial Adviser**” means Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined under the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong), and being the independent financial adviser appointed for the purpose of Rule 14A.52 of the Listing Rules

“**Invested Fund**” means a private equity fund in which HAIL has invested on behalf of HSIC pursuant to the PE Investment Management Agreement

“**INHK**” means HSBC Life (International) Limited, a company incorporated in Bermuda with limited liability

“**Listing Rules**” means the Rules Governing the Listing of Securities on the Stock Exchange

“**New Investment Management Agreement**” means the investment management agreement dated 21 June 2016 between HSIC and AMHK

“**New Management Services Agreement**” means the intragroup services agreement and the performance level agreement relating to certain management services, dated 21 June 2016 between HSIC and INHK

“**OECD**” means the Organisation for Economic Co-operation and Development

“**PE Investment Management Agreement**” means the agreement dated 21 June 2016 between HSIC and HAIL in relation to the PE Services

“**PE Services**” means private equity investment management services

“**Previous Investment Management Agreement**” means the investment management agreement dated 21 June 2013 between HSIC and AMHK

“**Previous Management Services Agreement**” means the management services agreement dated 21 June 2013 between HSIC and INHK

“**Stock Exchange**” means The Stock Exchange of Hong Kong Limited

“**USD**” or “**US\$**” means United States dollars, the lawful currency of the United States

“**Vintage Period**” each year of the investment period under the PE Investment Management Agreement

As at the date hereof, the Board of Directors of the Company comprises Dr Raymond K F Ch'ien\* (Chairman), Ms Rose W M Lee (Vice-Chairman and Chief Executive), Dr John C C Chan\*, Mr Nixon L S Chan, Mr Patrick K W Chan, Dr Henry K S Cheng\*, Ms L Y Chiang\*, Mr Andrew H C Fung, Dr Fred Zulu Hu\*, Ms Irene Y L Lee\*, Ms Sarah C Legg#, Dr Eric K C Li\*, Dr Vincent H S Lo#, Mr Kenneth S Y Ng#, Mr Richard Y S Tang\*, Mr Peter T S Wong# and Mr Michael W K Wu\*.

\* Independent Non-executive Directors

# Non-executive Directors

By Order of the Board

**C C Li**

Secretary

Hong Kong, 21 June 2016

恒生銀行有限公司

**HANG SENG BANK LIMITED**

**Incorporated in Hong Kong with limited liability**

Registered Office and Head Office: 83 Des Voeux Road Central, Hong Kong

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*Member HSBC Group*