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If you have sold or transferred all your shares in Chong Hing Bank Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, exchange participant or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**MAJOR TRANSACTION
IN RELATION TO THE DISPOSAL OF
CHONG HING INSURANCE'S SHAREHOLDING IN
HONG KONG LIFE INSURANCE LIMITED**

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DEFINITIONS

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

“Articles of Association”	the articles of association of the Bank adopted from time to time
“Banking (Capital) Rules”	the Banking (Capital) Rules (Chapter 155L of the Laws of Hong Kong), as amended or supplemented from time to time
“Banking (Liquidity) Rules”	the Banking (Liquidity) Rules (Chapter 155Q of the Laws of Hong Kong), as amended or supplemented from time to time
“Banking Ordinance”	the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as amended or supplemented from time to time
“Bank”	Chong Hing Bank Limited, a company incorporated in Hong Kong with limited liability, the ordinary shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 01111)
“Board”	the board of directors of the Bank
“Chong Hing Distribution Agreement”	the distribution agreement proposed to be entered into between Hong Kong Life and the Bank upon Closing
“Chong Hing Insurance”	Chong Hing Insurance Company Limited, a wholly-owned subsidiary of the Bank
“Closing”	completion of the sale of the Shares (including the Disposal) pursuant to the Share Sale Agreement
“Closing Date”	the date on which Closing takes place
“Conditions”	the conditions to Closing under the Share Sale Agreement
“Consideration”	the consideration for the disposal of the Shares
“Deposit”	the deposit for the disposal of the Shares
“Director(s)”	the director(s) of the Bank
“Disposal”	the disposal of the Disposal Shares by Chong Hing Insurance on and subject to the terms and conditions set out in the Share Sale Agreement
“Disposal Shares”	70,000,000 Shares, representing 16 $\frac{2}{3}$ % of the issued share capital of Hong Kong Life on the date of the Share Sale Agreement, held by Chong Hing Insurance and proposed to be sold to the Purchaser on and subject to the terms and conditions set out in the Share Sale Agreement

DEFINITIONS

“Distribution Agreements”	the Chong Hing Distribution Agreement, the OCBC Wing Hang Distribution Agreement, the Shanghai Commercial Bank Distribution Agreement and the Wing Lung Distribution Agreement
“Group”	the Bank and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Life”	Hong Kong Life Insurance Limited, a company incorporated in Hong Kong with registration number 0708790, whose core business is the sale and underwriting of life insurance products in Hong Kong
“HKMA”	the Hong Kong Monetary Authority
“Insurance Authority”	the Office of the Commissioner of Insurance of Hong Kong or, if the regulatory powers of the Office of the Commissioner of Insurance of Hong Kong are transferred to the Independent Insurance Authority of Hong Kong pursuant to the Insurance Companies (Amendment) Ordinance 2015, the Independent Insurance Authority of Hong Kong
“Insurance Authority Condition”	the Condition that any person that will become a “controller” (as defined under the Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong)) of Hong Kong Life as a result of the Transaction having obtained written approval or a written notice of no objection from the Insurance Authority to become a “controller” of Hong Kong Life, if such approval is required by the Insurance Authority
“Latest Practicable Date”	25 May 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange for the time being in force

DEFINITIONS

“Long Stop Date”	<p>(i) the date falling 12 months after the date of the Share Sale Agreement unless, following the expiry of this initial 12-month period, the only outstanding Condition that remains to be satisfied is the Insurance Authority Condition, in which case:</p> <p>(a) the Sellers acting jointly shall have the right to extend the Long Stop Date to the date falling no later than 24 months after the date of the Share Sale Agreement; and</p> <p>(b) if the delay in satisfying the Insurance Authority Condition has in part been caused by changes in the organisation and structure of the Insurance Authority resulting in the Insurance Authority taking longer than would typically be the case to process the approval application, the Purchaser shall have the right to extend the Long Stop Date to a date falling no later than 18 months after the date of the Share Sale Agreement; or</p> <p>(ii) such other date as may be agreed in writing by the Sellers and the Purchaser from time to time</p>
“OCBC Wing Hang Distribution Agreement”	the distribution agreement proposed to be entered into between Hong Kong Life and OCBC Wing Hang Bank Limited upon Closing
“Purchaser”	First Origin International Limited, a company incorporated in Hong Kong with limited liability
“Relevant Proportion”	with respect to each Seller, its percentage holding in the issued share capital of Hong Kong Life on the date of the Share Sale Agreement; and with respect to Chong Hing Insurance, a figure equal to 16 $\frac{2}{3}$ %
“Schemes”	Wealth Express Invest Plan, Wealth Express Single Premium Invest Plan and Wealth Plus Invest Plan, being investment-linked assurance schemes offered by Hong Kong Life
“Seller Banks”	the Bank, OCBC Wing Hang Bank Limited, Shanghai Commercial Bank Limited and Wing Lung Bank Limited
“Sellers”	Asia Insurance Company, Limited, Chong Hing Insurance, OCBC Wing Hang Bank Limited, Shanghai Commercial Bank Limited and Wing Lung Agency Limited
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time

DEFINITIONS

“Shanghai Commercial Bank Distribution Agreement”	the distribution agreement proposed to be entered into between Hong Kong Life and Shanghai Commercial Bank Limited upon Closing
“Share Sale Agreement”	the share sale agreement dated 20 March 2017 entered into by the Sellers and the Purchaser in relation to the Transaction
“Shareholder(s)”	holder(s) of the ordinary shares in the issued share capital of the Bank
“Shares”	the issued shares in the share capital of Hong Kong Life
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	the disposal of the Shares by the Sellers (including the Disposal) on and subject to the terms and conditions set out in the Share Sale Agreement
“Wing Lung Distribution Agreement”	the distribution agreement proposed to be entered into between Hong Kong Life and Wing Lung Bank Limited upon Closing
“Written Shareholder’s Approval”	the written shareholder’s approval dated 20 March 2017 in respect of the Share Sale Agreement and the Disposal given by Yuexiu Financial Holdings Limited
“%”	per cent.

LETTER FROM THE BOARD



Executive Directors

Mrs LEUNG Ko May Yee Margaret SBS, JP
(Deputy Chairman and Managing Director)
Mr ZONG Jianxin
(Deputy Managing Director and Chief Executive)
Mr LAU Wai Man
(Deputy Managing Director)

Registered Office

Ground Floor
Chong Hing Bank Centre
24 Des Voeux Road Central
Hong Kong

Non-executive Directors

Mr ZHANG Zhaoxing
(Chairman)
Mr ZHU Chunxiu
Mr WANG Shuhui
Mr LI Feng
Mr CHOW Cheuk Yu Alfred BBS, JP

Independent Non-executive Directors

Mr CHENG Yuk Wo
Mr MA Chiu Cheung Andrew
Mr LEE Ka Lun
Mr YU Lup Fat Joseph

Hong Kong, 31 May 2017

Dear Shareholders,

MAJOR TRANSACTION IN RELATION TO THE DISPOSAL OF CHONG HING INSURANCE'S SHAREHOLDING IN HONG KONG LIFE INSURANCE LIMITED

1 INTRODUCTION

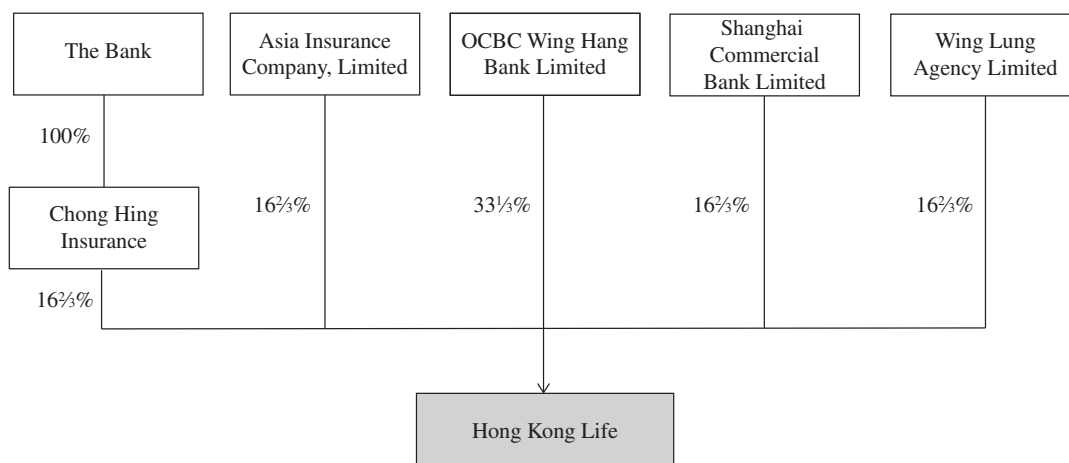
Reference is made to the announcement of the Bank dated 20 March 2017 in relation to the Transaction.

On 20 March 2017, the Sellers (being Chong Hing Insurance, a wholly-owned subsidiary of the Bank, Asia Insurance Company, Limited, OCBC Wing Hang Bank Limited, Shanghai Commercial Bank Limited and Wing Lung Agency Limited) entered into the Share Sale Agreement with the Purchaser, pursuant to which the Sellers conditionally agreed to sell their respective interests in, and the Purchaser conditionally agreed to purchase the entirety of, the issued share capital of Hong Kong Life, whose core business is the sale and underwriting of life insurance products in Hong Kong.

LETTER FROM THE BOARD

The purpose of this circular is to provide you with, among other things, (i) further details of the Share Sale Agreement and the Disposal; and (ii) other information as required under the Listing Rules.

A diagram showing the shareholding structure of Hong Kong Life before Closing is set out as follows:



2 THE SHARE SALE AGREEMENT

The principal terms of the Share Sale Agreement are as follows:

Date

20 March 2017

Parties

- (i) Chong Hing Insurance;
- (ii) Asia Insurance Company, Limited;
- (iii) OCBC Wing Hang Bank Limited;
- (iv) Shanghai Commercial Bank Limited;
- (v) Wing Lung Agency Limited; and
- (vi) the Purchaser.

Mr Ma Chiu Cheung Andrew, an independent non-executive Director of the Bank, is a director of Asia Insurance Company, Limited.

Save as disclosed above, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Asia Insurance Company, Limited, OCBC Wing Hang Bank Limited, Shanghai Commercial Bank Limited, Wing Lung Agency Limited, the Purchaser and their respective ultimate beneficial owners are third parties independent of the Bank and the connected persons of the Bank.

Please see the section headed "*Information on the Bank and the Parties*" below for further information on the parties to the Share Sale Agreement.

LETTER FROM THE BOARD

Subject Matter

Under the Share Sale Agreement, the Sellers conditionally agreed to sell their respective interests in, and the Purchaser conditionally agreed to purchase the entirety of, the issued share capital of Hong Kong Life.

Consideration

The Consideration for the disposal of the Shares shall be an amount in cash equal to HK\$7,100 million. The consideration for the disposal of the Disposal Shares shall be an amount in cash equal to approximately HK\$1,183.33 million, being Chong Hing Insurance's Relevant Proportion of the Consideration.

The Consideration was determined after arm's length negotiations between the parties to the Share Sale Agreement following an auction process, and taking into account the interests of the Bank and the financial position of Hong Kong Life. The Purchaser, offering the most competitive overall package among the bidders, was selected by the Sellers collectively as the successful bidder after comparing, amongst others, the bid prices for the Shares submitted by the bidders and the terms and conditions proposed by the bidders during the auction process.

The Purchaser has paid to the Sellers its Relevant Proportion of an amount of HK\$710 million as the Deposit for the Shares (equivalent to approximately 10% of the Consideration). Of the Deposit, Chong Hing Insurance has received an amount equal to approximately HK\$118.33 million, being its Relevant Proportion of the Deposit. The Deposit is non-refundable to the Purchaser unless the Sellers breach their closing obligations under the Share Sale Agreement.

On Closing, the Purchaser shall pay to each Seller an amount in immediately available funds equal to such Seller's Relevant Proportion of an amount equal to the Consideration less the Deposit (and any interest accrued on the Deposit based on the average rate available to a HSBC Hong Kong Dollar Savings Account) less the Sellers' 50% share of (a) the employee retention bonus, being an amount to be determined between the Sellers and the Purchaser and paid for the purpose of retaining and incentivising the employees of Hong Kong Life, and (b) the Hong Kong stamp duty arising under the Transaction. It has been commercially agreed that the employee retention bonus and the Hong Kong stamp duty shall be borne equally between, on the one hand, the Purchaser and, on the other hand, the Sellers combined, and the Sellers' 50% share will be paid by the Purchaser to the relevant employees and the Inland Revenue Department on the Sellers' behalf.

Conditions

Closing of the Transaction (including the Disposal) is conditional upon satisfaction of the following Conditions, or their satisfaction subject only to Closing:

- (i) any person that will become a "controller" (as defined under the Insurance Companies Ordinance (Chapter 41 of the Laws of Hong Kong)) of Hong Kong Life as a result of the Transaction having obtained written approval or a written notice of no objection from the Insurance Authority to become a "controller" of Hong Kong Life, if such approval is required by the Insurance Authority; and
- (ii) in respect of the Schemes: (a) the SFC having approved the change of the controlling shareholders of Hong Kong Life pursuant to the Code on Investment-Linked Assurance Schemes; and (b) (if required by the SFC) notice of such change having been given to the participants of the Schemes and the SFC's prescribed notice period to the participants of the Schemes having expired.

LETTER FROM THE BOARD

If the Conditions are not satisfied by the Long Stop Date, the Purchaser on the one hand, or the Sellers acting jointly on the other hand, may, in its or their sole discretion, terminate the Share Sale Agreement.

As at the Latest Practicable Date, none of the above Conditions has been satisfied.

Closing

Subject to the paragraph immediately below, Closing shall take place on the tenth business day after the date on which notification of the fulfilment of the last of the Conditions set out in the section headed “*Conditions*” above takes place, or on such other date as may be agreed between the Purchaser and the Sellers.

Upon Closing, Hong Kong Life and each Seller Bank (including the Bank) shall enter into the Distribution Agreements pursuant to which the Seller Banks shall respectively distribute products of Hong Kong Life on and subject to the terms of each of their respective Distribution Agreement.

The Directors confirm that entering into distribution agreements is of a revenue nature, in the ordinary and usual course of business of the Bank. The Bank currently distributes products of Hong Kong Life and will continue to distribute products of Hong Kong Life after Closing pursuant to the Chong Hing Distribution Agreement.

3 INFORMATION ON THE BANK AND THE PARTIES

The Bank

Founded in 1948, Chong Hing Bank Limited is a listed company in Hong Kong (Stock Code: 01111) and has been a member of Yue Xiu Group since February 2014, with a 75% stake held by Yuexiu Financial Holdings Limited. The Bank operates a network of 41 local branches as well as branches in Guangzhou, Shenzhen, Shantou and Macau, sub-branches in Guangzhou Tianhe, Foshan, Nansha and Hengqin in mainland China and representative offices in Shanghai and San Francisco. It offers a wide range of retail and wholesale financial banking products as well as securities trading, financial management and insurance services.

The Bank was one of the founding members of Hong Kong Life.

Chong Hing Insurance

Chong Hing Insurance, a wholly-owned subsidiary of the Bank, is an insurance company and carries on general insurance business other than insurance of a long-term nature.

Hong Kong Life

Founded in 2001, Hong Kong Life has developed into a well-established life insurance company in Hong Kong, ranking number 10 in terms of New Business Annual Premium Equivalent among Hong Kong life insurers in the fourth quarter of 2016. Hong Kong Life offers a broad product suite to cater to the insurance needs of customers in every life stage, including traditional savings insurance, universal life, term life insurance, retirement plans, juvenile plans, medical & dread disease coverage, accidental & disability coverage, and group insurance.

LETTER FROM THE BOARD

Asia Insurance Company, Limited

Established in 1959, Asia Insurance Company, Limited, a subsidiary of Asia Financial Holdings Limited, is a general insurer based in Hong Kong with a strong Financial Strength Rating 'A' by S&P Global Ratings, broad distribution network and quality client base. Apart from its head office in Hong Kong, Asia Insurance Company, Limited distributes its products and services overseas via its Macau branch.

OCBC Wing Hang Bank Limited

OCBC Wing Hang Bank Limited was established in 1937 and became a wholly-owned subsidiary of the Oversea-Chinese Banking Corporation Limited in October 2014. It has a network of over 100 branches and offices in Hong Kong, Macau and mainland China. Together with its subsidiaries and affiliated companies, OCBC Wing Hang Bank Limited offers a comprehensive range of commercial banking products and services and other financial services including consumer financing, share brokerage and insurance. Oversea-Chinese Banking Corporation Limited is the longest established Singapore bank and the second largest financial services group in Southeast Asia by assets.

Shanghai Commercial Bank Limited

Established in 1950, Shanghai Commercial Bank Limited is an established local Chinese bank in Hong Kong, majority-owned by The Shanghai Commercial & Savings Bank, Limited. Shanghai Commercial Bank Limited has over 40 branches across Hong Kong, 2 branches and 1 sub-branch in mainland China and 4 overseas branches, offering customers a range of retail and corporate banking services and products including deposits, securities trading, credit cards, insurance and wealth management services and corporate and personal loans.

Wing Lung Bank Limited

Established in 1933, Wing Lung Bank Limited is among the oldest Chinese banks in Hong Kong and has been a member of China Merchants Bank Group since 2008. As of 31 December 2016, Wing Lung Bank Limited had 37 branches across Hong Kong, 3 branches and 1 sub-branch in mainland China, 1 branch in Macau and 3 overseas branches, providing banking services, including deposits, loans, private banking and wealth management, investment, securities, credit cards, NET Banking, syndicated loans, corporate financing, bills, hire-purchase and leasing, foreign exchange, insurance agency and Mandatory Provident Fund. Wing Lung Bank Limited also provides insurance broking and general insurance underwriting, property management and trustee, as well as nominee and asset management services through its wholly-owned subsidiaries.

The Purchaser

Incorporated in Hong Kong, First Origin International Limited is an investment holding company with a focus on investment in financial and technology sectors in Asia, aiming at improving operational efficiency, and promoting sustainable growth, of traditional finance through leveraging technology.

To the best of the Directors' knowledge, as at the Latest Practicable Date, Mr Zhang Zhenxin is the sole ultimate beneficial owner of the Purchaser.

LETTER FROM THE BOARD

4 FINANCIAL INFORMATION CONCERNING HONG KONG LIFE

The audited net profit before and after tax and extraordinary items attributable to Hong Kong Life prepared in accordance with Hong Kong Financial Reporting Standards for each of the two years ended 31 December 2015 and 2016 were as follows:

	Net profit/(loss) before taxation and extraordinary items	Net profit/(loss) after taxation and extraordinary items
	<i>HK\$</i>	<i>HK\$</i>
For the year ended 31 December 2015	57,131,008	41,146,543
For the year ended 31 December 2016	25,400,504	25,448,723

The decrease in net profit of Hong Kong Life for the year ended 31 December 2016 as compared to the previous year was mainly caused by volatility in interest rates which was a result of a number of global macroeconomic and political events during the course of the year.

5 FINANCIAL EFFECTS OF THE DISPOSAL

The Bank's interests in Hong Kong Life were accounted as an investment in associates using equity accounting method in the consolidated financial statements of the Group for the year ended 31 December 2016. As recorded in the consolidated financial statements of the Group for the year ended 31 December 2016, the Group's share of Hong Kong Life's profit and net assets amounted to HK\$3,241,000 and HK\$95,734,000 respectively.

As a result of the Disposal, the Group expects to derive a gain before tax of approximately HK\$1,087.60 million. Such gain, without deducting transaction costs and expenses that are estimated at around 2% of Chong Hing Insurance's Relevant Proportion of the Consideration, is calculated by reference to the following:

- (i) consideration receivable for the sale of the Disposal Shares of approximately HK\$1,183.33 million; and
- (ii) carrying value of Hong Kong Life in the amount of approximately HK\$95.73 million included in the audited consolidated financial statements of the Group for the year ended 31 December 2016.

After deducting the estimated transaction costs and expenses, the Group expects to derive a gain before tax of approximately HK\$1,063.93 million. Upon Closing, it is expected that the total assets of the Bank will increase by about HK\$1,063.93 million.

The ultimate gain that the Group will record may be different from the estimated gain disclosed above given that there will be changes to the carrying value of Hong Kong Life after 31 December 2016 due to, amongst other things, the profit and loss of Hong Kong Life.

6 REASONS FOR AND BENEFITS OF ENTERING INTO THE SHARE SALE AGREEMENT

The Directors believe that the sale of the Disposal Shares is in line with the strategy of all of the Sellers. In particular, Hong Kong Life is currently a joint venture among the five Sellers. The Sellers believe that it is in the best interests of Hong Kong Life to have one new single shareholder to take charge to grow its business in line with its customers' evolving needs. The Purchaser has been identified through a competitive auction process, and the Directors believe that the sale will generate substantial value in the interests of the Shareholders.

LETTER FROM THE BOARD

Closing of the Transaction is subject to the Conditions referred to in the section headed “*The Share Sale Agreement*” above. As at the Latest Practicable Date, none of the Conditions has been satisfied. As it is not yet certain as to when the Conditions may be satisfied, the Group has not confirmed the specific allocation for the use of proceeds. However, it is expected that the Group will utilise the proceeds for reinvestment in its businesses and for general working capital purposes upon Closing. Further details relating to the use and allocation of the proceeds will be disclosed upon Closing.

7 LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the Disposal are more than 25% but all are below 75%, the Disposal constitutes a major transaction of the Bank and is subject to the reporting, announcement, circular and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders’ approval of the Disposal may be given by way of written Shareholders’ approval in lieu of holding a general meeting if (1) no Shareholder is required to abstain from voting if the Bank were to convene a general meeting for the approval of the Disposal; and (2) the written Shareholders’ approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the issued share capital of the Bank giving the right to attend and vote at that general meeting to approve the Disposal.

So far as the Directors are aware after making reasonable enquiry, no Shareholder is required to abstain from voting if the Bank were to convene a general meeting for the approval of the Disposal.

On 20 March 2017, the Bank received the Written Shareholder’s Approval in respect of the Share Sale Agreement and the Disposal from Yuexiu Financial Holdings Limited, being a Shareholder holding an aggregate of 489,375,000 ordinary shares in the issued share capital of the Bank, representing 75% of the issued share capital of the Bank as at the date of the Written Shareholder’s Approval. Accordingly, the Written Shareholder’s Approval has been accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules.

8 ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the following appendices to this circular:

Appendix I: Financial Information of the Group

Appendix II: General Information

Yours faithfully,

By Order of the Board

Zhang Zhaoxing
Chairman

1 STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2017, being the latest practicable date for the purpose of this statement of indebtedness, the Group had the following outstanding borrowings and debt securities:

- (i) a subordinated fixed rate note (the “**Note**”) in a principal amount of US\$225,000,000 issued by the Bank on 5 November 2010 that qualifies as Tier 2 capital under Basel II. The Note will mature on 4 November 2020. If at any time on or after 1 January 2013 the Note no longer fully qualifies as term subordinated debt for inclusion in Category II – Supplementary Capital of the Bank as a result of changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the Note by serving a “Change in Status Notice” on the noteholders. Upon a “Change in Status Notice” becoming effective, the Note shall thereafter constitute unsubordinated obligations and the rate of interest on the Note shall be reduced from 6% per annum to 5.5% per annum. As a “Change in Status Notice” has not been served as at the Latest Practicable Date, the rate of interest on the Note remains at 6% per annum;
- (ii) the Group has issued securities which are measured at amortised cost with a total carrying amount of HK\$1,689,431,000 as at 31 March 2017. The debt securities issued bear contractual interest rate at 3.6% per annum and will mature in 2019; and
- (iii) deposits from customers, deposits and balances of banks, certificates of deposit issued, financial assets sold under repurchase agreements, direct credit substitutes, forward asset purchases, trade-related contingencies, undrawn formal standby facilities, credit lines and other commitments that arise from the normal course of the Bank’s banking business.

The Note mentioned in (i) above has not included the undated non-cumulative subordinated additional tier 1 capital securities (the “**Additional Tier 1 Capital Securities**”) with a face value of US\$300,000,000 (equivalent to HK\$2,312,030,000 net of related issuance costs) which are classified as additional equity instruments in the Group’s consolidated statement of financial position. The Additional Tier 1 Capital Securities are undated and bear a 6.5% coupon until the first call date on 25 September 2019. The coupon will be reset every five years if the Additional Tier 1 Capital Securities are not redeemed to a fixed rate equivalent to the then-prevailing five-year US Treasury rate plus 4.628% per annum.

Save as aforesaid or otherwise disclosed herein, and apart from the intra-group liabilities, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowing or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 31 March 2017.

2 WORKING CAPITAL SUFFICIENCY

Rule 14.66(10) and paragraph 30 of Appendix 1B to the Listing Rules require a major transaction circular to include a statement by the Directors confirming the sufficiency of the working capital available to the Bank. In addition, Rule 14.66(12) of the Listing Rules provides that if the circular contains a statement as to the sufficiency of working capital, the Stock Exchange will require a letter from the issuer's financial advisors or auditors confirming that (a) the statement has been made by the Directors after due and careful enquiry, and (b) the persons or institutions providing finance have confirmed in writing that such facilities exist (the "**Confirmation Letter**").

The Bank is licensed in Hong Kong to engage in commercial and retail banking businesses. As an authorised institution supervised by the HKMA under the Banking Ordinance, the Bank's solvency and capital adequacy are subject to prudential supervision by the relevant regulatory bodies.

As the business model of a bank does not rely on holding sufficient cash to purchase goods in order to generate sales revenue, working capital is not regarded as a suitable indicator of solvency or liquidity for a banking entity. The more appropriate financial indicator is the capital adequacy ratio, calculated as a ratio of the bank's capital base to its risk-weighted assets, and is widely used by regulators in the banking industry to assess and monitor a bank's solvency, financial condition, strength and ability to meet its liabilities and other risks.

The Bank has applied for, and the Stock Exchange has granted, a waiver from complying with the working capital statement requirements under Rules 14.66(10) and 14.66(12) and paragraph 30 of Appendix 1B to the Listing Rules to the effect that (i) no statement as to the sufficiency of working capital of the Bank needs to be disclosed in this circular, subject to the disclosure of the Bank's capital adequacy and liquidity positions set out below, and (ii) the Stock Exchange does not require the Confirmation Letter with respect to the working capital sufficiency statement of the Bank.

Capital adequacy ratios

Capital adequacy and the use of regulatory capital are monitored regularly by the Group's management based on the Banking (Capital) Rules, and the required information is filed with the HKMA on a quarterly basis. The HKMA requires each bank (as defined in the Banking (Capital) Rules) or banking group to maintain a ratio of total regulatory capital to the risk-weighted assets (the capital adequacy ratio) at or above the minimum as stipulated in the Banking (Capital) Rules. For the implementation of the "Basel III" capital accord, which became effective on 1 January 2013, the Banking (Capital) Rules require an authorised institution to comply with the relevant capital adequacy ratios by the following timeline:

BASEL III Requirements	2014	2015 and thereafter
Common Equity Tier 1 Capital Ratio ⁽¹⁾	4%	4.5%
Tier 1 Capital Ratio ⁽²⁾	5.5%	6%
Total Capital Ratio ⁽³⁾	8%	8%

The capital adequacy ratios of the Bank for the years ended 31 December 2014, 2015 and 2016, and for the three months ended 31 March 2017 were as follows:

	31 December 2014	31 December 2015	31 December 2016	31 March 2017
Common Equity Tier 1 Capital Ratio ⁽¹⁾	9.60%	12.60%	11.81%	10.96%
Tier 1 Capital Ratio ⁽²⁾	12.77%	15.22%	14.16%	13.07%
Total Capital Ratio ⁽³⁾	15.94%	17.73%	16.32%	14.88%

Notes:

- (1) expressed as a percentage, of the amount of the authorised institution's common equity tier 1 capital to the sum of the authorised institution's risk-weighted amount for credit risk, risk-weighted amount for market risk and risk-weighted amount for operational risk;
- (2) expressed as a percentage, of the amount of the authorised institution's tier 1 capital to the sum of the authorised institution's risk-weighted amount for credit risk, risk-weighted amount for market risk and risk-weighted amount for operational risk; and
- (3) expressed as a percentage, of the amount of the authorised institution's total capital to the sum of the authorised institution's risk-weighted amount for credit risk, risk-weighted amount for market risk and risk-weighted amount for operational risk.

The Group has complied with all regulatory capital adequacy ratio requirements applicable to it for the years ended 31 December 2014, 2015 and 2016.

Liquidity ratios

Prior to 1 January 2015, the Liquidity Ratio of a bank was calculated as the ratio of its liquefiable assets to its qualifying liabilities. All authorised institutions were required to maintain a Liquidity Ratio of not less than 25% in each calendar month under the predecessor Banking Ordinance. Since 1 January 2015, under the Banking (Liquidity) Rules, a category 2 institution must maintain a Liquidity Maintenance Ratio (as defined in the Banking (Liquidity) Rules, calculated as a ratio of its liquefiable assets to its qualifying liabilities based on a modified classification of assets and liabilities) of not less than 25% on average in each calendar month.

The average monthly Liquidity Ratio of the Bank for the year ended 31 December 2014, and the average monthly Liquidity Maintenance Ratio for the years ended 31 December 2015 and 2016 were as follows:

	31 December 2014	31 December 2015	31 December 2016
Average Liquidity Ratio ⁽¹⁾	40.38%	—	—
Average Liquidity Maintenance Ratio ⁽²⁾	—	39.46%	40.59%

Notes:

- (1) expressed as a percentage, of the arithmetic mean of each calendar month's average Liquidity Ratio of the Bank and several other companies within the Group (namely, Chong Hing Finance Limited, Right Way Investments Limited and Gallbraith Limited) for the year ended 31 December 2014, computed in accordance with the predecessor Fourth Schedule of the Banking Ordinance; and
- (2) expressed as a percentage, of the arithmetic mean of the average value of the Liquidity Maintenance Ratio of the Bank reported in the liquidity position return of the Bank for each month during the year.

The Group has complied with all regulatory liquidity ratio requirements applicable to it for the years ended 31 December 2014, 2015 and 2016.

3 FINANCIAL AND TRADING PROSPECTS OF THE GROUP

2016 started with slower economic growth in the Mainland and Hong Kong as loan demand fell. In the second half of 2016, the Hong Kong stock market performed better and loan demand improved despite rising interest rates and depreciation of the Renminbi exchange rate against the US dollar. Against this background, the Bank's core business lines and overall financial health remained strong, asset quality was sound and profitability from core business had increased in 2016.

Guangzhou, the southern gate to China and home base of the Yue Xiu Group, has been actively developing its financial industry in recent years. Leveraging on the strength of the Yue Xiu Group, the Bank opened a sub-branch in Tianhe, Guangzhou in October 2014, and opened a new chapter for the Bank's development in the Mainland. On 9 May 2016, the Bank opened its Guangzhou Branch to oversee the network of branches in the Mainland. This solidifies the Bank's development plans in the Mainland.

Following in the footsteps of the "Shanghai-Hong Kong Stock Connect" and the "Mainland-Hong Kong Mutual Recognition of Funds" arrangements, the "Shenzhen-Hong Kong Stock Connect" was officially launched on 5 December 2016. The "Shenzhen-Hong Kong Stock Connect" represents another important breakthrough for the cooperation mechanism between the capital markets in Hong Kong and the Mainland, and further deepens the mutual access between the two markets. It also strengthens Hong Kong's ability to better serve as a global offshore Renminbi business hub and an international asset management centre, with a view to facilitating the development of the financial industries locally and in the Mainland. To ride on the rapid development of Shenzhen in recent years, on 30 November 2016, the Bank opened a branch in Shenzhen. Benefiting from Shenzhen's proximity to Hong Kong and leveraging on its financial sector's openness to innovation and development, the Shenzhen Branch demonstrates the Bank's cross-border capabilities in Guangdong and Hong Kong. It also paves the way for ongoing expansion in the Mainland with a focus on professional and speciality banking, as well as service differentiation.

Before 2014, the Bank's presence in the Mainland was limited to one branch in Shantou. After active expansion, the Bank now has a 3+4 outlet structure in the Pearl River Delta, comprising 3 branches (Guangzhou, Shenzhen and Shantou) and 4 sub-branches (Guangzhou Tianhe, Foshan, Nansha and Hengqin). In the coming years, subject to regulatory approval, the Bank aims at opening more cross-location sub-branches in other key cities in Guangdong Province, as well as branches in other cities in the Mainland. The Bank will endeavour to accomplish its vision of becoming an integrated commercial bank with cross-border expertise.

China is the world's second-largest economy. Although its annual economic growth has slowed after climbing to over 10% in 2010, China aims at achieving medium-high economic growth through the implementation of sustainable development strategies, including structural reforms and industrial upgrading and transformation. In 2016, China's economy continued its steady growth and gross domestic product increased by 6.7%. In 2017, there are numerous challenges in the global environment: the potential instability of Brexit, the commencement of the rate hike cycle, the presidential transition in the United States, an economic slowdown in Europe, and general elections in Germany, France and the Netherlands. These uncertainties will affect the overall business environment in Hong Kong. The Bank will properly position itself to face the challenges, identify new business opportunities and continue to grow its business without compromising on risk and control.

China's "One Belt, One Road" foreign policy will give rise to greater demand for infrastructure investment and financing, green finance and other related services. The Infrastructure Financing Facilitation Office of the HKMA has entered into a memorandum of understanding on infrastructure financing facilitation with the Export-Import Bank of China and the China Development Bank Corporation. Hong Kong, in view of its location and expertise, should benefit from its initiative, and participate in and facilitate the financing of infrastructure projects which may arise. As of October 2016, the China Development Bank Corporation's asset in Hong Kong exceeded US\$50 billion and it has, through Hong Kong, commenced 29 infrastructure projects with investments of over US\$5 billion in the Belt and Road countries. Hong Kong is an international financial centre serving as a platform to provide investment and financing opportunities for overseas infrastructure projects. The financial and banking industries in Hong Kong will benefit from the opening of cross-border investment channels. In view of this development, the Bank will speed up its transformation reforms, broaden its product range, enhance its financial service capacities and risk management abilities, and better capture cross-border financial business opportunities.

4 MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, being the date to which the latest published audited accounts of the Group have been made up.

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 Bank. 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 DISCLOSURE OF INTERESTS**i. Interests of Directors (including the Chief Executive)**

Save as disclosed below, as at the Latest Practicable Date, none of the Directors (including the Chief Executive) of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Bank and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules:

Name of Director	Associated Corporation	Long/Short position	Personal interests	Number of ordinary shares held			Percentage of issued share capital ⁽¹⁾
				Spousal interests	Corporate interests	Total interests	
Li Feng	Yuexiu Property Company Limited	Long	172,900	–	–	172,900	0.001
Lee Ka Lun	Yuexiu Property Company Limited	Long	3,200,000	–	–	3,200,000	0.026
Yu Lup Fat Joseph	Yuexiu Property Company Limited	Long	4,000,000	–	–	4,000,000	0.032

Note:

- (1) Based on 12,401,306,631 shares of Yuexiu Property Company Limited in issue as at the Latest Practicable Date.

ii. Interests of Substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, the Directors of the Bank are not aware of any person (other than a Director) who had interests or short positions in the shares and underlying shares of the Bank which would fall to be disclosed to the Bank under the provisions of Divisions 2 and 3 of Part XV of the SFO or were required to be recorded in the register kept under section 336 of the SFO:

Name	Long/Short position	Capacity	Number of ordinary shares	Percentage of issued share capital⁽¹⁾
Yuexiu Financial Holdings Limited ⁽²⁾	Long	Beneficial owner	489,375,000	75
Yue Xiu Enterprises (Holdings) Limited	Long	Interest of a controlled corporation	489,375,000	75
廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*)	Long	Interest of a controlled corporation	489,375,000	75

Notes:

(1) Based on 652,500,000 shares of the Bank in issue as at the Latest Practicable Date.

(2) Yuexiu Financial Holdings Limited is wholly-owned by Yue Xiu Enterprises (Holdings) Limited (“Yuexiu”), and Yuexiu is wholly-owned by 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*).

* for identification purpose only

3 COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, their respective close associates (as defined in the Listing Rules) had any interest 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 which would be required to be disclosed under Rule 8.10 of the Listing Rules.

4 SERVICE CONTRACTS

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

5 INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors:

- (i) had any direct or indirect interests in any assets which had been, since 31 December 2016 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or 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; or
- (ii) was materially interested in any contract or arrangement which was significant in relation to the business of the Group.

6 LITIGATION

As at the Latest Practicable Date, the Group was not engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

7 MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within two years immediately preceding the Latest Practicable Date and are or may be material:

- (i) the Share Sale Agreement; and
- (ii) the underwriting agreement dated 17 August 2015 entered into between the Bank and the joint underwriters (being BOCI Asia Limited, DBS Asia Capital Limited and Nomura International (Hong Kong) Limited) in relation to (i) the underwriting of the rights shares (other than the 163,125,000 rights shares subscribed by Yuexiu Financial Holdings Limited) issued under the rights issue of 217,500,000 rights shares at the subscription price of HK\$17.05 per rights share on the basis of one rights share for every two shares, and (ii) certain other arrangements in respect of the said rights issue.

8 MISCELLANEOUS

- (i) The registered office of the Bank is Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.
- (ii) The share registrar and transfer office of the Bank is Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (iii) Ms Lai Wing Nga is the company secretary of the Bank. Ms Lai is a fellow of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom.
- (iv) The English text of this circular shall prevail over the Chinese text in the event of any inconsistency.

9 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Bank at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong during normal business hours on any weekday (excluding public holidays) for a period of 14 days from the date of this circular:

- (i) the Articles of Association;
- (ii) the annual reports of the Bank for the two financial years ended 31 December 2015 and 2016;
- (iii) the material contracts referred to in the paragraph headed “*Material Contracts*” in this appendix; and
- (iv) this circular.