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(Stock code: 11)

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## **ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the Company's announcement dated 22 June 2010 in which the Company set caps under the Previous Management Services Agreement and the Previous Investment Management Agreement, for the period from 22 June 2010 to 21 June 2013 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 2013, INHK and HSIC have entered into the New Management Services Agreement, and AMHK and HSIC have entered into the New Investment Management Agreement for another term of three years.

INHK and AMHK, both 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 its issued share capital. The New Management Services Agreement and the New Investment Management Agreement are therefore continuing connected transactions of the Company. As 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 and the New Investment Management Agreement, when aggregated with each other, are more than 0.1% but less than 5%, the New Management Services Agreement and the New Investment Management 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 Rules 14A.37 to 14A.40 and 14A.45 to 14A.47 of the Listing Rules.

This announcement is being published pursuant to Rules 14A.34 and 14A.47 of the Listing Rules.

## **BACKGROUND**

Reference is made to the Company's announcement dated 22 June 2007 in connection with the acquisition ("Acquisition") by HSIC, a wholly-owned subsidiary of the Company, of 50% of the issued share capital of HSLI, from INAH, an indirect wholly-owned subsidiary of HSBC. On 22 June 2007 and in conjunction with the Acquisition, HSLI entered into a management services agreement ("First Management Services Agreement") for an initial term of three years with INHK, under which INHK provided certain management services to HSLI to enable HSLI to conduct its life insurance business. On 22 June 2007, HSLI also entered into an investment management agreement for an initial term of three years with AMHK pursuant to which AMHK acts as investment manager in respect of certain of HSLI's assets held from time to time ("First Investment Management Agreement"). On completion of the Acquisition, HSLI became an indirect wholly owned subsidiary of the Company. HSLI's long term insurance business has been subsequently integrated into that of HSIC whose principal business is the provision of life assurance and retirement benefit services to customers in Hong Kong. Accordingly, the First Management Services Agreement and the First Investment Management Agreement were novated, so that HSIC became a party thereto.

Reference is also made to the Company's announcement dated 18 December 2009 in which the Company set caps under the First Management Services Agreement and First Investment Management Agreement, for the period from 1 January 2010 to 21 June 2010 in accordance with the requirements of the Listing Rules.

Reference is also made to the Company's announcement dated 22 June 2010 in which it was mentioned that the Company, upon expiry of the First Management Services Agreement and First Investment Management Agreement, entered into the Previous Management Services Agreement and Previous Investment Management Agreement and also set caps under them, for the period from 22 June 2010 to 21 June 2013 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 2013, INHK and HSIC have entered into the New Management Services Agreement, and AMHK and HSIC have entered into the New Investment Management Agreement for another term of three years.

INHK and AMHK, both 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 its issued share capital. The New Management Services Agreement and the New Investment Management Agreement are therefore continuing connected transactions of the Company, which require an Annual Cap to be set under Rule 14A.35 of the Listing Rules.

### **NEW MANAGEMENT SERVICES AGREEMENT**

On 21 June 2013, the New Management Services Agreement was entered into between INHK and HSIC setting out the terms upon which INHK, directly or through one or more of its Affiliates, will provide certain management services to HSIC. The Directors propose that an Annual Cap will be set in respect of the maximum amount payable under the New Management Services Agreement.

#### ***Date***

21 June 2013

#### ***Parties***

INHK

HSIC

#### ***Term***

INHK will provide the management services to HSIC for a term of three years commencing from 22 June 2013. 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) development and pricing for selected products;
- (d) information technology and business recovery;
- (e) financial operations and control;
- (f) actuarial services;
- (g) investment,

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 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 5%.

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 UK and 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 proposed annual cap for the amount of fees payable to INHK under the New Management Services Agreement will be HK\$107 million for the period from 22 June 2013 to 31 December 2013, HK\$221 million for the year ending 31 December 2014, HK\$230 million for the year ending 31 December 2015, and HK\$120 million for the period from 1 January 2016 to 21 June 2016.

The aggregate amount paid under the Previous Management Services Agreement was approximately HK\$47 million for the period from 22 June 2010 until 31 December 2010, HK\$83 million for the year ended 31 December 2011 and HK\$84 million for the year ended 31 December 2012. Further, as announced by the Company on 22 June 2010, the cap for the period from 1 January 2013 to 21 June 2013 is HK\$97 million.

The proposed 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 Group consider that the entering into 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 on normal commercial terms 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 2013, 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. The Directors propose that an Annual Cap will be set in respect of the maximum amount payable under the New Investment Management Agreement.

***Date***

21 June 2013

***Parties***

AMHK

HSIC

***Term***

AMHK will provide investment management services to HSIC for a term of three years commencing from 22 June 2013. 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 0.15% and 0.75% per annum of the mean value of the assets under management. Also subject to the Annual Cap, HSIC will pay to HAIL a fee of between 0.5% and 0.9% 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 3.5% per annum above 3-month LIBOR. Such fees have been determined on an arm's length basis.

***Annual Cap***

The proposed annual cap for the amount of fees payable by HSIC under the New Investment Management Agreement will be HK\$59 million for the period from 22 June 2013 to 31 December 2013, HK\$140 million for the year ending 31 December 2014, HK\$162 million for the year ending 31 December 2015 and HK\$96 million for the period from 1 January 2016 to 21 June 2016.

The aggregate amount paid under the Previous Investment Management Agreement was approximately HK\$26 million for the period from 22 June 2010 until 31 December 2010, HK\$61 million for the year ended 31 December 2011 and HK\$67 million for the year ended 31 December 2012. Further, as announced by the Company on 22 June 2010, the cap for the period from 1 January 2013 to 21 June 2013 is HK\$39 million.

The proposed 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;
- (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 on normal commercial terms comparable 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 and AMHK, both 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 its issued share capital. The New Management Services Agreement and the New Investment Management Agreement are therefore continuing connected transactions of the Company. As 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 and the New Investment Management Agreement, when aggregated with each other, are more than 0.1% but less than 5%, the New Management Services Agreement and the New Investment Management 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 Rules 14A.37 to 14A.40 and 14A.45 to 14A.47 of the Listing Rules.

None of the Directors have a material interest in the entry into the New Management Services Agreement and the New Investment Management Agreement or have abstained from voting on the resolution of the Directors of the Company in relation to the approval of the entry into the New Management Services Agreement and the New 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 is one of the world's largest banking and financial services organisations operating in 80 countries and territories in Europe, the Asia-Pacific region, North and Latin America, the Middle East and North 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. This announcement is being published pursuant to Rules 14A.34 and 14A.47 of the Listing Rules.

## **DEFINITIONS**

**"Affiliates"** 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.

**"AMHK"** 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"** the maximum aggregate annual value payable by HSIC under the Continuing Connected Transactions.

**"Company"** 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)

**"Continuing Connected Transactions"** the New Management Services Agreement and the New Investment Management Agreement

**"Directors"** the directors of the Company

**"Group"** the Company and its subsidiaries

**"HAIL"** HSBC Alternative Investments Limited, a company incorporated in England with limited liability

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

“**HSBC**” 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**” HSBC and its subsidiaries

“**HSIC**” Hang Seng Insurance Company Limited, a company incorporated in Hong Kong with limited liability

“**HSLL**” Hang Seng Life Limited, a company incorporated in Hong Kong with limited liability

“**INAH**” HSBC Insurance (Asia Pacific) Holdings Limited, a company incorporated in Hong Kong with limited liability

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

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

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

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

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

“**Previous Investment Management Agreement**” the investment management agreement dated 22 June 2010 between AMHK and HSIC

“**Previous Management Services Agreement**” the management services agreement dated 22 June 2010 between INHK and HSIC

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

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\*, Dr Marvin K T Cheung\*, Ms L Y Chiang\*, Mr Andrew H C Fung, Ms Anita Y M Fung#,  
Dr Fred Zulu Hu\*, Ms Sarah C Legg#, Dr Eric K C Li\*, Dr Vincent H S Lo#, Mrs Dorothy K Y P  
Sit#, Mr Richard Y S Tang\*, Mr Peter T S Wong# and Mr Michael W K Wu\*.

*# Non-executive Directors*

*\* Independent Non-executive Directors*

By Order of the Board

**C C Li**

Secretary

Hong Kong, 21 June 2013

**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*