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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

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CONTINUING CONNECTED TRANSACTIONS

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

COMMERZBANK 

Commerzbank AG Hong Kong Branch

A letter from the Independent Board Committee is set out on page 13 of this circular. A letter from Commerzbank to the Independent Board Committee and the Independent Shareholders is set out on pages 14 to 22 of this circular. A notice for convening the EGM to approve the Continuing Connected Transactions and the New Annual Caps, together with the proxy form for such purpose, will be dispatched separately to the Shareholders in or around April 2008.

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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 Company (as adopted, amended or modified from time to time)
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“BOC”	Bank of China Limited, a joint stock limited liability company established under the laws of the PRC primarily engaged in commercial banking activities and the indirect holder of more than 60% of the equity capital in the Company
“BOC (BVI)”	BOC Hong Kong (BVI) Limited, a company incorporated under the laws of the British Virgin Islands and a wholly owned subsidiary of BOCHK
“BOC Group Trustee”	BOC Group Trustee Company Limited, a company incorporated under the laws of Hong Kong and a non-wholly owned subsidiary of BOCHK
“BOCHK”	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company
“BOCHKG”	BOC Hong Kong (Group) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“BOC Insurance”	Bank of China Group Insurance Company Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“BOC Life”	BOC Group Life Assurance Company Limited, a company incorporated under the laws of Hong Kong, in which the Company and BOC Insurance hold equity interests of 51% and 49% respectively
“BOCI”	BOC International Holdings Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOC
“BOCI-Prudential Manager”	BOCI-Prudential Asset Management Limited, a company incorporated under the laws of Hong Kong, in which BOCI Asset Management Limited, a wholly owned subsidiary of BOCI, and Prudential Corporation Holdings Limited hold equity interests of 64% and 36%, respectively
“BOCI-Prudential Trustee”	BOCI-Prudential Trustee Limited, a company incorporated under the laws of Hong Kong, in which BOC Group Trustee and Prudential Corporation Holdings Limited hold equity interests of 64% and 36% respectively
“BOCI Securities”	BOCI Securities Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCI
“Central SAFE”	Central SAFE Investments Limited

DEFINITIONS

“Commerzbank”	Commerzbank AG, acting through its Hong Kong branch, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and an authorized financial institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO, and appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions
“Company”	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong, the shares of which are listed on the Stock Exchange
“Continuing Connected Transactions”	the Investment Connected Transactions and the Inter-bank Connected Transactions
“Controlling Shareholder”	has the meaning ascribed to it in the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held immediately following conclusion of the annual general meeting of the Company, tentatively scheduled to be held in May 2008 to approve the Continuing Connected Transactions and the New Annual Caps
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region
“Independent Board Committee”	a committee of the Board comprising all the independent non-executive directors of the Company
“Independent Shareholders”	the shareholders of the Company other than BOC and its associates
“Inter-bank Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – Inter-bank Connected Transactions” of this circular
“Investment Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – Investment Connected Transactions” of this circular
“Latest Practicable Date”	25 January, 2008, 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 (and a “Rule” means a rule of the Listing Rules)
“Macau”	Macau Special Administrative Region
“New Annual Caps”	the new annual caps for each of the three years ending 31 December, 2010 in respect of the Continuing Connected Transactions
“PRC” or “China”	The People’s Republic of China which, for the purposes of this circular only, excludes Hong Kong, Macau and Taiwan

DEFINITIONS

“Services and Relationship Agreement”	the Services and Relationship Agreement entered into among, inter alia, the Company and BOC dated 6 July, 2002 (as amended and supplemented from time to time)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary shares of par value HK\$5.00 each in the share capital of the Company
“Shareholders” or “Members”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed to it in the Listing Rules

LETTER FROM THE BOARD



中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2388)

Board of Directors:

- * Mr. XIAO Gang (Chairman)
- * Mr. SUN Changji (Vice-chairman)
- Mr. HE Guangbei (Vice-chairman and Chief Executive)
- * Mr. LI Zaohang
- * Mr. ZHOU Zaiqun
- * Mdm. ZHANG Yanling
- Mr. LEE Raymond Wing Hung
- Mr. GAO Yingxin
- ** Dr. FUNG Victor Kwok King
- ** Mr. KOH Beng Seng
- ** Mr. SHAN Weijian
- ** Mr. TUNG Chee Chen
- ** Mr. TUNG Savio Wai-Hok
- ** Mdm. YANG Linda Tsao

* *non-executive Directors*

** *independent non-executive Directors*

Registered Office:

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

1 February, 2008

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated 2 January, 2008 relating to, among other things, the Continuing Connected Transactions and the New Annual Caps.

The Group conducts certain continuing connected transactions with BOC and its associates in the ordinary and usual course of its business on normal commercial terms. BOC indirectly controls more than 60% of the issued shares of the Company and is the Controlling Shareholder of the Company. Accordingly, BOC and its associates are connected persons of the Company under the Listing Rules.

The Continuing Connected Transactions are governed by the Services and Relationship Agreement and/or other specific agreements. Pursuant to the Services and Relationship Agreement, BOC has agreed to, and agreed to procure its associates to, enter into all future arrangements with the Group on an arm's-length basis, on normal commercial terms and at rates no less favourable than those offered to independent third parties, in relation to certain areas including, among others, information technology services, training services, physical bullion agency services, correspondent banking arrangements, treasury transactions, provision of insurance and syndicated loans. Pursuant to the same agreement, the Company has agreed to, and agreed to procure its subsidiaries to, enter into all future arrangements on the same basis, provided that the rates offered by the Group to BOC and its associates will be no more favourable than those offered to independent third parties. The Services and Relationship Agreement, as amended (the duration being the only amendment), is valid for a period of three years commencing 1 January, 2008.

LETTER FROM THE BOARD

The annual caps for each of the financial years ended 31 December, 2005 and 31 December, 2006 in respect of the Continuing Connected Transactions have not been exceeded. The Company does not expect the annual caps for the financial year ended 31 December, 2007 to be exceeded.

The main purposes of this circular are:

- (a) to provide you with further details of the Continuing Connected Transactions and the New Annual Caps; and
- (b) to set out the letter of advice in respect of the Continuing Connected Transactions and the New Annual Caps from Commerzbank to the Independent Board Committee and the Independent Shareholders.

PARTICULARS OF THE CONTINUING CONNECTED TRANSACTIONS

Investment Connected Transactions

1. Securities Transactions

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

In consideration of the provision of securities brokerage services to the Group and its customers by BOCI Securities, the Group pays a commission, net of a rebate based on a fixed portion of the gross commission, to BOCI Securities. Accordingly, the Company has been receiving rebates from BOCI Securities at a fixed proportion of the gross commission paid to BOCI Securities.

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

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

	<u>2005</u>	<u>2006</u>	<u>2007*</u>
Historical commissions (net of rebate) and revenues (HK\$ million)	102.43	195.63	412.93
	<u>2008</u>	<u>2009</u>	<u>2010</u>
New Annual Caps (HK\$ million)	2,700	4,000	6,000

* Actual amount for the ten months ended 31 October, 2007 while the 2007 annual cap is HK\$1,100 million

2. Fund Distribution Transactions

As one of the leading financial services providers in Hong Kong, the Group provides fund distribution services to fund houses (including BOCI-Prudential Manager and BOCI-Prudential Trustee) in its ordinary course of business. The Group promotes and sells various fund products, including guaranteed fund and open-ended fund products and mandatory provident fund ("MPF") products, as an intermediary for BOCI-Prudential Manager and BOCI-Prudential Trustee. The Group receives a commission rebate on the basis of a certain percentage of the management fee received by BOCI-Prudential Manager in relation to the guaranteed funds. In respect of open-ended fund products, the Group receives a portion of the service fees received by BOCI-Prudential Manager in respect of the units it sells as a commission. In respect of MPF products, the Group receives commissions based on the number of new members joining the MPF schemes of BOCI-Prudential Trustee referred to it by the Group. All fees and commissions payable by the fund houses (including BOCI-Prudential Manager and BOCI-Prudential Trustee) are calculated with reference to the prevailing market rates and the underlying transaction volumes based on an agreed fee schedule.

LETTER FROM THE BOARD

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

	<u>2005</u>	<u>2006</u>	<u>2007*</u>
Historical commissions and rebates (HK\$ million)	45.1	53.59	186.48
	<u>2008</u>	<u>2009</u>	<u>2010</u>
New Annual Caps (HK\$ million)	2,700	4,000	6,000

* Actual amount for the ten months ended 31 October, 2007 while the 2007 annual cap is HK\$250 million

3. Insurance Agency

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

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

	<u>2005</u>	<u>2006</u>	<u>2007*</u>
Historical commissions (HK\$ million)	221.42	295.06	311.76
	<u>2008</u>	<u>2009</u>	<u>2010</u>
New Annual Caps (HK\$ million)	2,700	4,000	6,000

* Actual amount for the ten months ended 31 October, 2007 while the 2007 annual cap is HK\$530 million

Inter-bank Connected Transactions

4. Foreign Exchange Transactions

In the ordinary course of its business, the Group enters into foreign exchange transactions with BOC and its associates. These transactions are executed with reference to prevailing market rates. Foreign exchange transactions include spot, forward and outright transactions, and exercised currency options. The Group also conducts foreign currency banknote exchange transactions with BOC on normal commercial terms.

The table below sets out the historical estimated revenues and the New Annual Caps for the foreign exchange transactions described above:

	<u>2005</u>	<u>2006</u>	<u>2007*</u>
Historical estimated revenues (HK\$ million)	88.53	55.97	13.01
	<u>2008</u>	<u>2009</u>	<u>2010</u>
New Annual Caps (HK\$ million)	2,700	4,000	6,000

* Actual amount for the ten months ended 31 October, 2007 while the 2007 annual cap is HK\$550 million

LETTER FROM THE BOARD

5. Trading of Financial Assets

The Group enters into various transactions with BOC and its branches, in which BOC and its branches buy or sell secondary interests in loans from and to the Group. Trading of account receivables, forfeitings and other similar types of financial assets are also included in this category. These transactions are conducted on normal commercial terms.

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

	<u>2005</u>	<u>2006</u>	<u>2007*</u>
Historical value (HK\$ million)	269.71	1,179.54	1,007.09
	<u>2008</u>	<u>2009</u>	<u>2010</u>
New Annual Caps (HK\$ million)	50,000	75,000	110,000

* Actual amount for the ten months ended 31 October, 2007 while the 2007 annual cap is HK\$18,500 million

6. Inter-Bank Capital Markets

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

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

	<u>2005</u>	<u>2006</u>	<u>2007*</u>
Historical value (HK\$ million)	3,223	4,538.83	1,825.36
	<u>2008</u>	<u>2009</u>	<u>2010</u>
New Annual Caps (HK\$ million)	50,000	75,000	110,000

* Actual amount for the ten months ended 31 October, 2007 while the 2007 annual cap is HK\$18,000 million

Note: As announced by the Company on 11 April, 2006, the Group entered into a supplemental agreement with BOC in March 2006 that amended the term of the Services and Relationship Agreement with respect to inter-bank capital markets transactions to 31 December, 2008, and the annual cap in relation to inter-bank capital markets transactions for the year ending 31 December, 2008 was set at HK\$22,000 million. For the reasons set out below, the Company proposes to revise the annual cap for the year ending 31 December, 2008 from HK\$22,000 million to HK\$50,000 million.

LETTER FROM THE BOARD

REASONS AND BASIS FOR THE NEW ANNUAL CAPS

Investment Connected Transactions

The Investment Connected Transactions involve activities which are regulated by various regulatory bodies in Hong Kong, such as, the Hong Kong Monetary Authority, the Securities and Future Commission and Office of the Commissioner of Insurance. The securities transactions are subject to the turnover of the stock market in Hong Kong and the historical transaction amounts for the ten months ended 31 October, 2007 increased significantly as compared to the historical transaction amounts for the year ended 2006 due to the booming stock market during 2007. The caps for the securities transactions have been revised in August 2007 which indicates that such transactions are greatly affected by external factors beyond the control of the Group. For the fund distribution transactions, these are mainly determined by customers' decision on their wealth management portfolio (e.g. stock, trust fund and foreign currency etc.) which are also not within the Group's control. The historical amounts of the fund distribution transactions for the ten months ended 31 October, 2007 increased significantly by over 2.5 times of the historical transaction amounts for the year ended 31 December, 2006. For the insurance agency transactions, these relate primarily to the insurance market which is also subject to external factors similar to that of the stock market in Hong Kong and the historical transaction amounts of which for the ten months ended 31 October, 2007 also increased by approximately 5.66% over the historical transaction amounts for the year ended 31 December, 2006. All of the transactions above increased significantly for the ten months ended 31 October, 2007 and the transaction values of which are subject to a number of external factors that are beyond the control of the Group. Accordingly, a standard cap amount of HK\$2,700 million is proposed for each of the Investment Connected Transactions for the year ending 31 December, 2008. Such annual cap is based on 5% of the revenue of the Group (being the benchmark figure adopted internally by the Company with reference to the Company's experience in similar transactions and which the Company considers reasonable given the volatility of the capital markets) of approximately HK\$47,165 million for the year ended 31 December, 2006 after taking into account a growth rate of approximately 14.5% (being the growth rate of the Company's net operating income, as reflected in the Company's 2007 Interim Report). For each of the two years ending 31 December, 2010, an annual growth rate of 50% is applied to the annual cap for the year ending 31 December, 2008 to set the respective annual caps for each of the Investment Connected Transactions. Such annual growth rate has been determined after taking into account the market-driven nature of the Investment Connected Transactions which is considered to be difficult for the Group to estimate. Since the transaction amounts of the Investment Connected Transactions may vary significantly due to the unexpected fluctuations of the financial markets, in particular noting that the annual cap of the Securities Transactions for the year ended 31 December, 2007 was revised in August 2007, the Directors (including the independent non-executive directors) consider the New Annual Caps for the Investment Connected Transactions for each of the three years ending 31 December, 2010 to be in the interests of the Company and its shareholders as a whole.

Inter-bank Connected Transactions

The Inter-bank Connected Transactions involve transactions among banks or financial institutions, which are regulated by monetary authorities in all regions. For these transactions, a buy order and a sell order will be regarded as two transactions, and the amounts involved will therefore count twice. For example, a foreign exchange transaction needs to roll over every month, the total amount incurred from such transaction will therefore be rolled over 24 times. Accordingly, the historical transaction amounts are not good indicators to estimate future transaction amounts.

For the foreign exchange transactions, the transactions include spot, forward and outright transactions, which may vary significantly depending on the prevailing market rates. The revenue or loss generated from these transactions is largely dependent on the relative strength or weakness of the currency, which is beyond the Company's control. Given the market-driven nature of the foreign exchange transactions, which is difficult for the Group to estimate the future transaction amounts, the New Annual Caps for this transaction are set at the same amounts as those of Investment Connected Transactions. The Directors (including the independent non-executive directors) consider the New Annual Caps for the foreign exchange transactions for the three years ending 31 December, 2010 to be in the interests of the Company and its shareholders as a whole.

For the trading of financial assets and the inter-bank capital markets transactions, these transactions involve dollar bills and exchange fund notes of which the Group is one of the market makers in Hong Kong. In 2006, the historical transaction amounts for the trading of financial assets and the inter-bank capital markets transactions increased significantly by approximately 337% and approximately 41%, respectively over the respective historical transaction amounts in 2005. The significant increase during 2006 was mainly due to the high demand for Hong Kong dollar notes and the increase in the corresponding Hong Kong dollar loans. For the ten months ended 31 October, 2007, the demand for Hong Kong dollar notes dropped sharply and approximately HK\$1,825 million in value was transacted. Given the great uncertainties of these transactions, which may vary depending on market conditions, the annual cap for the year ending 31 December, 2008 is set with reference to 5% of the total assets of the Group (being the benchmark figure adopted internally by the Company with reference to the Company's experience in similar transactions and which the Company considers reasonable given the volatility of the capital markets) of approximately HK\$924,227 million as at 31 December, 2006 after taking into account

LETTER FROM THE BOARD

a growth rate of approximately 6.5% (being the growth rate of the interim total asset value of the Company in 2007, as reflected in the Company's 2007 Interim Report). For each of the two years ending 31 December, 2010, an annual growth rate of 50% is applied to the annual cap for the year ending 31 December, 2008 to set the respective annual caps for each of the trading of financial assets transactions and the inter-bank capital markets transactions. Such annual growth rate has been determined after taking into account the market-driven nature of the trading of financial assets and the inter-bank capital markets, which are considered to be difficult for the Group to estimate. Such annual caps provides flexibility for the Group to accommodate future unexpected volatility of the financial markets and the Directors (including the independent non-executive directors) consider such New Annual Caps to be in the interests of the Company and its shareholders as a whole.

LISTING RULES REQUIREMENTS

Given that the New Annual Caps in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions represent more than 2.5% of the applicable percentage ratios as defined in the Listing Rules, the Investment Connected Transactions and the Inter-bank Connected Transactions constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules, and are subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

The Board has set up the Independent Board Committee comprising all of the independent non-executive Directors of the Company to review the Continuing Connected Transactions and the New Annual Caps and give recommendations to the Independent Shareholders. The Company has also retained Commerzbank as the independent financial adviser to the Independent Board Committee for the purpose of considering the Continuing Connected Transactions and the New Annual Caps.

Commerzbank has confirmed to the Independent Board Committee that, in its opinion, the Investment Connected Transactions and Inter-bank Connected Transactions have been entered into in the ordinary and usual course of the Group's business, on normal commercial terms, are fair and reasonable, and are in the interests of the Company and its shareholders as a whole. On the basis of Commerzbank's advice and their own review, the Directors (including the independent non-executive Directors) is satisfied that the Investment Connected Transactions and the Inter-bank Connected Transactions have been entered into in the ordinary and usual course of the Group's business, on normal commercial terms, are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

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

EXTRAORDINARY GENERAL MEETING

The Directors propose that an EGM will be held immediately following conclusion of the annual general meeting of the Company, tentatively scheduled to be held in May 2008 to approve the Continuing Connected Transactions and the New Annual Caps. A notice of EGM together with a proxy form will be despatched to the Shareholders in or around April 2008.

As the Investment Connected Transactions and the Inter-bank Connected Transactions continue following the expiration of the financial year ended 31 December, 2007, the Directors will ensure that each of the aggregate transaction values of the Investment Connected Transactions and the Inter-bank Connected Transactions falls within 2.5% of the applicable percentage ratios as defined in the Listing Rules, prior to obtaining approval from the Independent Shareholders at the EGM. Various control mechanisms have been adopted by the Company to ensure that the relevant connected transactions falls within the 2.5% threshold. Such mechanisms include generating monthly reports showing the transaction figures for each of the relevant connected transactions, and imposing a lower threshold as an internal cap whereby a warning signal will be issued automatically and preventive measures will be taken immediately if the relevant connected transactions reach the internal cap. In the event that the independent shareholders of the Company do not grant approval for the Investment Connected Transactions and the Inter-bank Connected Transactions at the EGM, the Company will ensure that the transaction figures of such connected transactions fall within the 2.5% threshold for the remaining of the year. Further, pursuant to the Services and Relationship Agreement, the Company has the right to exit the relevant connected transactions by giving prior written notice to BOC or its associates, as the case may be. As at the Latest Practicable Date, each of the aggregate transaction values of the Investment Connected Transactions and the Inter-bank Connected Transactions falls within the 2.5% threshold.

LETTER FROM THE BOARD

INFORMATION ON THE GROUP AND BOC

The Company was incorporated in Hong Kong on 12 September, 2001 to hold the entire equity interest in BOCHK, its principal operating subsidiary. BOC holds a substantial part of its interests in the shares of the Company through certain direct and indirect wholly owned subsidiaries of BOC.

BOCHK is a leading commercial banking group in Hong Kong. With over 280 branches and about 450 ATMs and other delivery channels in Hong Kong, BOCHK and its subsidiaries offer a comprehensive range of financial products and services to retail and corporate customers. BOCHK is one of the three banknote issuing banks in Hong Kong. In addition, BOCHK and its subsidiaries have 16 branches and sub-branches in the PRC to provide cross-border banking services to customers in Hong Kong and the PRC. BOCHK is appointed by the People's Bank of China as the Clearing Bank for Renminbi (RMB) business in Hong Kong.

The Company began trading on the main board of the Stock Exchange on 25 July, 2002, with stock code "2388", ADR OTC Symbol: "BHKLY".

BOC is one of the four largest commercial banks in the PRC in terms of total assets with most extensive international branch network among PRC commercial banks. BOC's core business is commercial banking, which primarily consists of corporate banking, personal banking and treasury operations. BOC also conducts investment banking and insurance activities through its subsidiaries. The combination of the commercial banking, investment banking and insurance businesses has created a universal banking platform that allows BOC to provide integrated services to its customers.

BOC has one of the most extensive domestic distribution networks, with over 10,000 branches and outlets, 580 self-service centres and 11,600 automated service machines throughout the PRC. BOC also has an extensive international network, which comprises over 600 overseas branches, subsidiaries and representative offices covering 28 countries and regions, and BOC has correspondent banking relationships with over 1,400 foreign banks. In addition, BOC offers electronic-banking services such as telephone banking and Internet banking.

The H shares of BOC began trading on the main board of the Stock Exchange on 1 June, 2006, and the A shares of the Company began trading on the Shanghai Stock Exchange on 5 July, 2006, respectively.

VOTING BY POLL

By virtue of the Listing Rules, the votes for approving the resolutions in respect of the Continuing Connected Transactions are required to be taken by way of a poll.

According to the Articles of Association, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (i) the chairman of the meeting;
- (ii) at least three Members present in person (or in the case of a Member being a corporation, by its duly authorised representative) or by proxy and entitled to vote at the meeting;
- (iii) any Member or Members present in person (or in the case of a Member being a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all Members having the right to attend and vote at the meeting; or
- (iv) any Member or Members present in person (or in the case of a Member being a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to or not less than one-tenth of the total sum paid up on all shares conferring that right.

In addition, the chairman of a meeting and/or Directors who, individually or collectively, hold proxies in respect of Shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies.

Unless a poll is so demanded and the demand is not withdrawn, a declaration by the chairman that a resolution has, on a show of hands, been carried unanimously or by a particular majority or lost shall be final and conclusive, and an entry to that effect in the minutes book of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

Notwithstanding the procedures set out in the Articles of Association, as a good corporate governance practice, the Board has resolved that as a matter of policy, all resolutions put to Shareholders at general meetings will be voted on by poll.

LETTER FROM THE BOARD

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider the Continuing Connected Transactions and the New Annual Caps to be fair and reasonable, on normal commercial terms and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM for the approval of the Continuing Connected Transactions and the New Annual Caps.

ADDITIONAL INFORMATION

The Independent Board Committee has been appointed to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the New Annual Caps. Commerzbank has been appointed to advise the Independent Board Committee and the Independent Shareholders in such regard. Accordingly, your attention is drawn to the letter of advice from the Independent Board Committee set out on pages 13 of this circular, which contains its recommendation to the Independent Shareholders, and the letter from Commerzbank set out on pages 14 to 22 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders.

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

Yours faithfully,
Xiao Gang
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中銀香港(控股)有限公司

BOC HONG KONG (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 2388)

1 February, 2008

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 1 February, 2008 of the Company (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to advise you as to whether, in our opinion, the Continuing Connected Transactions and the New Annual Caps are in the interests of the Company and its shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. Commerzbank has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions and the New Annual Caps.

We wish to draw your attention to the "Letter from the Board" set out on pages 5 to 12 of the Circular, and the letter from Commerzbank to the Independent Board Committee and Independent Shareholders set out on pages 14 to 22 of the Circular which contains its opinion in respect of the Continuing Connected Transactions and the New Annual Caps.

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

Yours faithfully,

Fung Victor Kwok King

Koh Beng Seng

Shan Weijian

Tung Chee Chen

Tung Savio Wai-Hok

Yang Linda Tsao

Independent Board Committee

LETTER FROM COMMERZBANK

The following is the text of a letter prepared by Commerzbank in connection with the Continuing Connected Transactions and the New Annual Caps for the purposes of inclusion in this circular:

COMMERZBANK

Hong Kong Branch

21st Floor, Hong Kong Club Building
3A Chater Road, Central
Hong Kong

1 February 2008

*To the Independent Board Committee
and the Independent Shareholders*

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions, the definitions of which are set out in the circular dated 1 February 2008 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

In the ordinary course of its business, the Group conducts the Continuing Connected Transactions with BOC and its associates. Annual caps had been assigned to each type of the Continuing Connected Transactions for each of the three financial years ended 31 December 2007 or the financial year ending 31 December 2008, as the case may be.

As at the Latest Practicable Date, BOC indirectly controls more than 60% of the issued shares of the Company and thus is the Controlling Shareholder of the Company. As such, BOC and its associates are connected persons of the Company and the Continuing Connected Transactions constitute continuing connected transactions of the Company under the Listing Rules.

The Continuing Connected Transactions have been continuing after 31 December 2007, the 2007 financial year end. Accordingly, the Company has assigned the New Annual Caps in respect of the Continuing Connected Transactions. Since the New Annual Caps in respect of the Continuing Connected Transactions represent more than 2.5% of the applicable percentage ratios as defined under the Listing Rules, the Continuing Connected Transactions constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules and are subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

The Independent Board Committee comprising all the independent non-executive Directors, namely Dr. Fung Victor Kwok King, Mr. Koh Beng Seng, Mr. Shan Weijian, Mr. Tung Chee Chen, Mr. Tung Savio Wai-Hok and Mdm. Yang Linda Tsao, has been established to advise the Independent Shareholders in respect of the Continuing Connected Transactions. We have been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the Continuing Connected Transactions are entered into in the ordinary course of business of the Group, on normal commercial terms, fair and reasonable, and are in the interests of the Company and the Shareholders as a whole; and (ii) the New Annual Caps in respect of the Continuing Connected Transactions are fair and reasonable.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company. We have assumed that all information, opinions and representations contained or referred to in the Circular are true and accurate in all material respects at the time they were made and continue to be so at the date of despatch of the Circular and we have relied on the same. Also, we have relied on the representations of the Company that having made all due enquiries and careful consideration, and to the best of their knowledge and belief, there is no other fact not contained in the Circular, the omission of which would make any statement contained in the Circular, including this letter, misleading.

LETTER FROM COMMERZBANK

We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide us with a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances which would render the information supplied by the Company, and the representations made to us, untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company, nor have we conducted any independent in-depth investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

We set out below details and the principal factors and reasons behind our opinion:

1. Background of the parties

1.1 The Group

The Group is principally engaged in commercial banking business in Hong Kong and offers a comprehensive range of financial products and services to retail and corporate customers. Currently, the Group has three principal lines of business, namely (i) retail banking; (ii) corporate banking; and (iii) treasury operation.

In March 2006, the Group announced its 2006-2011 Strategic Plan (the "Strategic Plan") to serve as guidance of its future development. The Strategic Plan comprised four key focuses, namely (i) the strengthening of the Group's leading position in the banking industry in Hong Kong; (ii) the development of new capabilities in product offerings and distribution; (iii) the building of a strong presence in the PRC; and (iv) the exploration of regional expansion opportunities. It is further stated in the Company's annual report for the year 2006 that the growth potential of the PRC market was a major consideration for the mapping out of the Group's strategy, and for the purpose of enhancing business capabilities, the Group will continue to explore new opportunities locally and beyond and its main focus will be on asset management, stock brokerage and insurance.

1.2 BOC

BOC, established in 1912, is one of the largest state-owned commercial banks in the PRC and is listed on the Main Board of the Stock Exchange. The core business of BOC is commercial banking, which primarily consists of corporate banking, personal banking and treasury operation. It also conducts insurance and investment banking activities through its subsidiaries.

2. The Continuing Connected Transactions

2.1 The Investment Connected Transactions

(i) Securities Transactions

BOCI Securities provides securities brokerage services to the Group and its customers from time to time in the ordinary and usual course of its business and on normal commercial terms. In consideration of the provision of securities brokerage services to the Group and its customers by BOCI Securities, the Group pays a commission, net of rebate based on a fixed portion of the gross commission, to BOCI Securities. Accordingly, since December 2001, the Group has been receiving rebates from BOCI Securities at a fixed proportion of the gross commission paid to BOCI Securities, regardless of the volume of business referred by the Group to BOCI Securities. In addition, the Group also distributes various products issued by BOCI Securities and its associates such as equity linked instruments, structured notes, bonds and other financial products as their agent on the basis of a commission with reference to the prevailing market rates.

The securities-related services provided by the Group, the executions of which must rely on brokerage system, are primarily initiated at the request of its customers. We understand that the existing brokerage services providers were selected from the list of brokerage houses used by sister banks of the Group prior to its merger in 2001. Currently, the Group executes its securities-related transactions through four brokerage houses and they were selected based on scale, servicing capacity, system stability and reliability (which are determined with reference to the relationship they have established over years of cooperation with the Group). The Company has confirmed that all brokerage houses (including BOCI Securities and other independent brokerage houses) are entitled to the same commission split charged by the Group. In addition, all securities transactions are executed through the Group's securities management system (the "Securities Management System") and the orders are routed to different brokerage houses in a sequential order. The Securities Management System is maintained by the Group's information technology department and the Group's product manager of securities brokerage conducts a regular review on the overall turnover amongst the agents to make sure that the distribution is in accordance with the setting.

LETTER FROM COMMERZBANK

We have reviewed the execution services agreement entered into between the Group and BOCI Securities and those entered into between the Group and other respective independent third parties. We have also obtained from the Group random samples of the securities transactions between the Group and BOCI Securities and those entered into between the Group and other respective independent third parties. Based on our review, we have not noted any material deviation between the terms offered by BOCI Securities and those offered by independent third parties thus we concur with the Company's representation that the securities transactions entered into with BOCI Securities are generally entered into with no less favorable terms than those entered into with independent third parties.

Given that (i) the terms of the securities transactions entered into with BOCI Securities are generally no less favorable than those with independent third parties with reference to the prevailing market rates; (ii) the securities-related services provided by the Group are initiated at the request of its customers and the orders are routed to different brokerage houses in a sequential order through the Securities Management System; and (iii) BOCI Securities, being one of the leading brokerage houses in Hong Kong in terms of trading volume, has met the Group's criterion for selecting their brokerage houses, we consider that the securities transactions are made on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(ii) *Fund Distribution Transactions*

As one of the leading financial services providers in Hong Kong, the Group provides fund distribution services to fund houses (including BOCI-Prudential Manager and BOCI-Prudential Trustee) in its ordinary course of business. Serving as an intermediary between the fund houses and the fund subscribers, the Group promotes and sells various fund products, including guaranteed fund and open-ended fund products and MPF products. The Group receives a commission rebate on the basis of a certain percentage of the management fee received by the fund houses (including BOCI-Prudential Manager) in relation to the guaranteed funds. In respect of open-ended fund products, the Group receives a portion of the service fees received by the fund houses (including BOCI-Prudential Manager) in respect of the units it sells as a commission. The Group receives commissions based on the number of new members joining the MPF schemes of BOCI-Prudential Trustee referred to it by the Group. All fees and commissions payable by the investment manager (including BOCI-Prudential) are calculated with reference to the prevailing market rates and the underlying transaction volumes based on an agreed fee schedule.

We have discussed with the Group and understand that the Group assesses the fund products based on the principles as set out in a written operation manual (the "Operation Manual") issued by the product control department of the Group. We have obtained from the Company the Operation Manual and note that such assessment is principally based on quality of the investment manager in terms such as reputation, size, track records and financial capability. We have also confirmed with the Group that the commission charged by the Group to BOCI-Prudential is under the same and fair terms as those charged to independent investment managers and the entering into of the fund distribution transactions with BOCI-Prudential are subject to approval from the legal and compliance department.

In assessing and reviewing the fund distribution transactions, we have obtained from the Company certain transaction records, including but not limited to, the order forms issued by the Company and the corresponding confirmations from the investment managers, for the fund distribution transactions between the Group with BOCI-Prudential as well as with other independent investment managers. Based on our review, we note that the range of commissions charged by the Group to BOCI-Prudential are in line with the range of commissions charged by the Group to other independent investment managers.

Given that (i) the commission charged by the Group to BOCI-Prudential is under the same and fair terms as those charged to independent investment managers; and (ii) our consideration that BOCI-Prudential has met the Group's criterion for selecting investment manager as stipulated under the Operation Manual, we consider that the fund distribution transactions are made on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM COMMERZBANK

(iii) Insurance Agency

BOCHK provides insurance agency services to BOC Insurance and BOC Life ("BOC Insurance Group") and receives commission payments in respect of the policies issued or renewed. BOC Insurance Group offers a broad range of general insurance services, such as accident and health, automobile, goods in transit, property damage and general liability. According to the Office of the Commissioner of Insurance, BOC Insurance had a market share of 5.6% and was ranked the second among 126 general insurers in terms of gross premiums in 2005 and BOC Life had a market share of 3.2% and was ranked the seventh among 65 authorised long term insurers in terms of office premiums in 2005.

As advised by the Group, unlike fund products for which the terms are more standardized, due to the nature of the insurance business, each insurance policy must be underwritten separately according to a number of actuarial assumptions including, but not limited to, the number of participants in the policy, the risk profile of the participant(s) on individual level and on aggregate level (for group insurance) and the amount of coverage they desired. These factors would all impact the premium to be charged against the policy holder, thereby varying the proportion of the commission to be charged by the agent, which in turn would be affected by the availability of the underlying coverage in the market as well. In addition, the commission charged is highly regulated by the Office of the Commissioner of Insurance.

The Company has confirmed that the terms of the insurance agency transactions were determined after arm's length negotiations and each of them has been and will continue to be entered into in accordance with the existing policy and internal guidelines. We have reviewed certain insurance agency transactions and note that in general, the terms of the insurance agency transactions with BOC Insurance Group are no less favorable than those with independent insurance companies provided that they are on the same type of insurance coverage.

Given that (i) the commission charged is highly regulated; (ii) the terms of the insurance agency transactions in general are no less favorable than those with independent insurance companies; and (iii) each of BOC Insurance and BOC Life is one of the leading insurance companies in Hong Kong, which is able to provide a wide range of insurance products and services to meet the demand of different clients so as to match the Group's positioning as a comprehensive financial services provider, we consider that the insurance agency transactions are made on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

2.2 The Inter-bank Connected Transactions

(i) Foreign Exchange Transactions

In the ordinary course of its business, the Group enters into foreign exchange transactions with BOC and its associates. These transactions are executed with reference to prevailing market rates. Foreign exchange transactions include spot, forward and outright transactions, and exercised currency options. The Group also conducts foreign currency banknote exchange transactions with BOC on normal commercial terms.

The Group earns foreign exchange revenue through the spread between its foreign exchange trades with retail customers and wholesale transactions in the inter-bank market. Trades with BOC represent a portion of those inter-bank transactions that are fungible with all others. Therefore, revenue attributable to BOC trades is determined as a percentage of total revenue from foreign exchange transactions calculated as the percentage of BOC trades compared to the total trades on the inter-bank market.

We have discussed with the Company and understand that save for the foreign currency banknote exchange transactions, all other foreign exchange transactions are processed through a centralized system and the executions must take place within a very short time frame. The design and operation of the aforesaid system must comply with the Group's risk management and IT security policies and is subject to periodic review by both internal and external auditors. The system in general does not allow any transactions to be executed that fall outside the prevailing market rates. In addition, all foreign exchange transactions are monitored by the product control department, which is an independent department, to ensure that they have been executed at the prevailing market rates.

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We have reviewed the terms of certain foreign exchange transactions as extracted from the trading system of the Group entered into between the Group and BOC and the respective comparable transactions between the Group and independent third parties. Such comparable transactions were selected based on the underlying currencies and the dates of the transaction. We compared the foreign exchange rates offered to BOC with the rates offered to other independent third parties and have not noted any material deviations. Save for the aforesaid comparison, we have also carried out independent verification on the rates of the foreign exchange transactions of larger nominal amounts entered into between the Group and BOC by making reference to the market rates as quoted from Bloomberg and have not noted any significant deviations either. As such, we consider the Group's foreign exchange transactions with BOC are made on normal commercial terms and on terms no less favorable than those made with independent third parties.

Given that (i) the terms of the foreign currency transactions in general are no less favorable than those with independent third parties; (ii) the Group is able to execute vast types of foreign currency transactions to meet the demand of different clients so as to match the Group's positioning as a comprehensive financial services provider; and (iii) our consideration that there are effective monitoring system in place for the execution of the foreign currency transactions, we consider that the foreign currency transactions are made on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(ii) Trading of Financial Assets

The Group enters into various transactions with BOC and its branches, in which BOC and its branches buy and sell secondary interests in loans from and to the Group.

As advised by the Group, the Group enters into the trading of financial assets for assets risk management and to maintain adequate liquidity level at the consideration determined with reference to market quotations on comparable transactions. These financial assets include, but not limited to, the syndication loans granted by the Group to its corporate clients. The risk management department of the Group would assess the risk of these financial assets periodically to determine whether taken as a whole, the risk and liquidity of the Company's assets class comprising these financial assets is at an acceptable level pre-determined by the Group's internal policy so as to meet the regulatory requirements under the Banking Ordinance and other instructions issued by the Hong Kong Monetary Authority ("HKMA") from time to time. In reciprocal, the Group may buy financial assets from other financial institutions if the risk management department considers such purchase would improve the risk of the relevant assets class through a similar process. The Group has confirmed that the terms of all trading of financial assets transactions are determined after arm's length negotiation and information on the prevailing market rates must be submitted to the legal and compliance department to seek approval for the entering into of such transactions.

In assessing and reviewing the trading of financial assets transactions, we have obtained certain agreements for the trading of financial assets transactions including, but not limited to, syndicate loan agreements entered into by the Company. Based on our review of the agreements, we note that the terms of the trading of financial assets transactions between the Group and BOC in general are no less favorable than transactions with independent financial institutions.

Given that (i) the trading of financial assets transactions with BOC are undertaken at no less favorable terms than those with other independent financial institutions; (ii) our consideration that there were sufficient segregation of duties in place for the execution of the transactions; and (iii) the trading of financial assets transactions are entered into for risk management of the Group, we consider that the trading of financial assets transactions are made on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(iii) Inter-Bank Capital Markets

The Group buys and sells debt securities from and to BOC and its associates in the secondary market with reference to prevailing market rates and these can be broadly classified into: (i) sale of exchange fund bills and notes issued by the HKMA; (ii) securities trading; and (iii) customer bond trading.

For the sale of exchange fund bills and notes, as one of the market makers appointed by the HKMA in Hong Kong, the Group is expected to participate actively in the primary market and to promote these papers in the retail market as well as to maintain the liquidity of the said instruments in the secondary market. As such, it is obliged to quote price upon requests by other financial institutions (including BOC) and if the price quoted is accepted by the counterparty, the Group is obliged to trade at the quoted price.

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We have reviewed a sample of "off market rate check guideline" issued by the Group's product control division, which is an independent unit under the Group's finance department and is responsible for independent price verification, including off-market rate transactions. In addition, we have obtained from the Group certain samples of the inter-bank capital market transactions with BOC and its associates and sample transactions with other independent third parties which are randomly selected based on the same types of underlying securities. Based on our review, we have not noted any material deviation between the terms offered by BOC and those offered by independent third parties. We have also examined the traded prices of the inter-bank capital market transactions and noted that they are more or less within the range of the historical market rates as quoted from Bloomberg. As such, we concur with the Group's representation that the transactions entered into with BOCI Securities are generally entered into with no less favorable terms than those entered with independent third parties with reference to the prevailing market rates.

Given that (i) the terms of the inter-bank capital market transactions entered into with BOC and its associates are generally no less favorable than those with independent third parties with reference to the prevailing market rates; (ii) an independent unit under the finance department is responsible for independent price verification, including off-market rate transactions; and (iii) the Group is under the obligation to quote price for the exchange fund bills and notes upon requests by counterparties and the decision whether to enter into the trade is made by the counterparties, not the Group, we consider that the inter-bank capital market transactions are made on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

3. The New Annual Caps

Set out below is a summary of the actual amounts of the Continuing Connected Transactions for the two years ended 31 December 2006 and the ten months ended 31 October 2007, as well as the annual cap amounts for the three years ended 31 December 2007:

Investment Connected Transactions

	For the year ended 31 December								
	2005			2006			2007		
	Actual (HK\$ million) (Audited)	Cap Utilisation %		Actual (HK\$ million) (Audited)	Cap Utilisation %		Actual* (HK\$ million) (Unaudited)	Cap Utilisation %	
Securities Transactions	102.43	180	56.91	195.63	220	88.92	412.93	260	158.82
								(Note 1)	
Fund Distribution	45.10	140	32.21	53.59	190	28.21	186.48	250	74.59
Insurance Agent	221.42	310	71.43	295.06	410	71.97	311.76	530	58.82

Inter-bank Connected Transactions

	For the year ended 31 December								
	2005			2006			2007		
	Actual (HK\$ million) (Audited)	Cap Utilisation %		Actual (HK\$ million) (Audited)	Cap Utilisation %		Actual* (HK\$ million) (Unaudited)	Cap Utilisation %	
Foreign Exchange	88.53	550	16.10	55.97	550	10.18	13.01	550	2.37
Trading of Financial									
Assets	269.71	18,500	1.46	1,179.54	18,500	6.38	1,007.09	18,500	5.44
Inter-bank Capital Markets	3,223.00	3,500	92.09	4,538.83	3,500	129.68	1,825.36	3,500	52.15
					(Note 2)			(Note 2)	

Note 1: Being the annual cap set in January 2005. The amount for the year ended 31 December 2007 has been revised to HK\$1,100 million in August 2007

Note 2: Being the annual cap set in January 2005. The amounts for each of the two years ended 31 December 2006 and 2007 have been revised to HK\$14,000 million and HK\$18,000 million respectively in April 2006

* Actual amount for the ten months ended 31 October 2007

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The Investment Connected Transactions involve activities which are regulated by various regulatory bodies in Hong Kong such as the HKMA, the Securities and Future Commission and Office of the Commissioner of Insurance. Based on the above table, we note that the historical transaction amounts of the Investment Connected Transactions increased significantly during 2006 and the growth rates of which were within the range of approximately 18.8% to 91.0%. During the ten months ended 31 October 2007, all of the transaction amounts of the Investment Connected Transactions have exceeded their respective transaction amounts for the year ended 31 December 2006. For the securities transactions, the historical transaction amounts for the ten months ended 31 October 2007 increased by approximately 1.1 times as compared to the historical transaction amounts for the year ended 31 December 2006, and such significant increase was mainly due to the booming stock market during 2007. For the fund distribution transactions, the historical amounts for the ten months ended 31 October 2007 increased significantly by approximately 2.5 times as compared to the historical transaction amounts for the year ended 31 December 2006. For the insurance agency transactions, the historical transaction amounts for the ten months ended 31 October 2007 have increased by approximately 5.66% over the historical amounts for the year ended 31 December 2006. In addition, we note that the annual cap for the securities transactions for the year ended 31 December 2007 has been revised from HK\$260 million to HK\$1,100 million in August 2007, which was due to the unexpected increase in customers' orders.

The Inter-bank Connected Transactions involve transactions among bank or financial institutions, which are regulated by monetary authorities in all regions. Based on the above table, we note that in 2006, the historical transaction amounts for the trading of financial assets and the inter-bank capital market transactions increased significantly by approximately 337% and approximately 41%, respectively over their respective historical transaction amounts in 2005. For the foreign exchange transactions, the historical transaction amount in 2006 noted a decrease of approximately 36.8% as compared to the transaction amount in 2005 and such decrease was mainly due to the decrease in orders from BOC and its associates. In addition, we note that the annual caps for the inter-bank capital market transactions for the two years ended 31 December 2007 have been revised in April 2006, which was due to the unexpected increase in the volume and amount of trades on exchange fund bill and notes between the Group and BOC and its associates. The historical amounts of each of the Inter-bank Connected Transactions for the ten months ended 31 October 2007 have not exceeded their respective annual caps for the year ended 31 December 2007.

Set out below is a summary of the New Annual Caps for each type of the Continuing Connected Transactions:

Investment Connected Transactions	2008	2009	2010
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Securities Transactions	2,700	4,000	6,000
Fund Distribution	2,700	4,000	6,000
Insurance Agent	2,700	4,000	6,000
Inter-bank Connected Transactions	2008	2009	2010
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Foreign Exchange	2,700	4,000	6,000
Trading of Financial Assets	50,000	75,000	110,000
Inter-bank Capital Markets	50,000	75,000	110,000

For each of the Investment Connected Transactions and the foreign exchange transactions, we note that a standard cap amount of HK\$2,700 million is proposed for the year ending 31 December 2008 and standard cap amounts of HK\$4,000 million and HK\$6,000 million are proposed for each of the two years ending 31 December 2010, respectively. The standard annual cap for the year ending 31 December 2008 is based on 5% of the revenue of the Group of approximately HK\$47,165 million for the year ended 31 December 2006 after taking into account a growth rate of approximately 14.5%; and the standard annual caps for each of the two years ending 31 December 2010 are set by applying an annual growth rate of 50% on each of the annual caps for the year ending 31 December 2008 and 2009, respectively.

For each of the trading of financial assets and the inter-bank capital market transactions, we note that a standard cap amount of HK\$50,000 million is proposed for the year ending 31 December 2008 and the standard cap amounts of HK\$75,000 million and HK\$110,000 million are proposed for each of the two years ending 31 December 2010, respectively. The standard annual cap for the year ending 31 December 2008 is set with reference to 5% of the total assets of the Group of approximately HK\$924,227 million as at 31 December 2006 after taking into account a growth rate of approximately 6.5%; and the standard annual caps for each of the two years ending 31 December 2010 are set by applying an annual growth rate of 50% on each of the annual caps for the year ending 31 December 2008 and 2009, respectively.

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In assessing the reasonableness of the above annual caps, we have discussed with the management of the Company the basis upon which such annual caps have been determined and noted that such caps are set after taking into account of the following factors:

(i) Nature of transactions

The nature of the transactions under the Investment Connected Transactions and the Inter-bank Connected Transactions are mostly market-driven, which the Company has limited or no control over the volume and amount of such transactions. Accordingly, the volume and aggregate value of each of the Investment Connected Transactions and the Inter-bank Connected Transactions vary from time to time and from year to year depending on a number of factors which are not within the control of the Group nor in the anticipation of the market. Such factors include, but not limited to, (i) fluctuations in the financial markets and economic conditions; (ii) the range of banking products and services provided by the Group; and (iii) the implementation of new policies or measures by governments or regulatory bodies.

For the securities transactions and the fund distribution transactions, they are generally initiated by customers or mainly determined by customers' decision on their wealth management portfolio (e.g. stock, trust fund, foreign currency etc.), which are not subject to the Group's control. We note that the values of securities transactions are largely subject to the overall trading activities of the stock market in Hong Kong. Based on our study on the statistics of the Hong Kong's stock market pursuant to the website of the Stock Exchange, we note that the total trading value of Hong Kong stock market increased from approximately HK\$21.4 billion as at 4 January 2005 to approximately HK\$122.9 billion as at 28 August 2007, representing an increase of approximately 5.7 times and such increase was not within the expectation of the Company. Accordingly, the Company has revised the caps set for the securities transactions in August 2007. For the insurance agency transactions, they relate primarily to the insurance market which the Group has no control over their volume and amounts. For the foreign exchange transactions, they are largely dependent on the relative strength and weakness of the currency and the overall macro economic conditions, which are beyond the Company's control. Accordingly, we note significant fluctuations for such transactions during 2006 and the ten months ended 31 October 2007 from the historical transaction records of the Company, which may be attributable to the aforesaid unpredictable nature of the currency market.

For the trading of financial assets and the inter-bank capital market transactions, they involve dollar bills and exchange fund notes of which the Group is one of market makers in Hong Kong. Accordingly, the Group has the obligation to quote price upon requests by other banks (including BOC and its associates) and the decision of entering into trade lies with the counterparty. For these transactions, a buy order and a sell order will be regarded as two transactions, and the amount involved will therefore be counted twice. For example, a foreign exchange transaction needs to roll over every month and the total amount incurred from such transaction will therefore be rolled over 24 times. Such counting schemes would increase the uncertainty of the estimation for the future transaction amounts. In addition, for the inter-bank capital market transactions, the face amount of a single inter-bank capital market trade could be as much as several hundred million Hong Kong dollars and as such, any change in the tenor of the exchange fund bills and notes or a small change in the number of transactions may affect the amount of trade recorded in any year. For illustrative purpose, if a counterparty purchases an exchange fund bill with a tenor of one month and rolls them over every month for three months, the amount of trade recorded by the Group will be three times the amount for the purchase of exchange fund bills with tenor of three months and the number of transactions will increase from one to three transactions. With such unpredictable nature, the annual caps of the inter-bank capital market transactions for the two years ended 31 December 2007 were revised in April 2006. Given the unpredictable and opportunistic nature of these transactions, the historical transaction amounts will not be good indicator to estimate future transaction amounts.

In view of the market-driven and unpredictable nature of transactions as stated above, we consider it is reasonable for the Group to adopt the above mentioned basis in determining the amounts of the proposed Caps and are of the view that the New Annual Caps are fair and reasonable.

(ii) Business expansion of the Group

In addition to cater for the market-driven and unpredictable nature of the transactions, the New Annual Caps have taken into account the business expansion of the Group, in particular the co-operation activities with BOC. As stated in the annual report of the Company for the year ended 31 December 2006, the PRC growth potential was a major consideration for the Group in mapping out its strategic plan, in particular the RMB banking services in Hong Kong. To maintain its leadership in RMB banking services, the Group has strengthened its co-operation activities with BOC during 2006 (e.g. acquisition of 51% equity interest in BOC Life, new banking service allowing wealth management customers to enjoy services at BOC's branch network

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in the whole Asia Pacific region, etc.). Given its close relationship with BOC, it is expected that business co-operation activities with BOC will be strengthened in the forthcoming years. As such, standard caps for each of the Investment Connected Transactions and the Inter-bank Connected Transactions are proposed so as to allow more flexibility for the Group to have more business transactions with BOC and its associates. In view of the close business co-operation activities between the Group and BOC and its associates, we consider it is reasonable for the Group to adopt the above mentioned basis in determining the amounts of the New Annual Caps and are of the view that the New Annual Caps are fair and reasonable.

Having considered (i) the market-driven and unpredictable nature of the Investment Connected Transactions and the Inter-bank Connected Transactions, in particular the Group's past experience of revising the cap amount for the securities transactions and the inter-bank capital market transactions, so as to accommodate the unanticipated increase in transaction amounts; and (ii) the business expansion plan of the Group, in particular the Group's strategy to maintain its leadership in RMB banking services in Hong Kong by further close co-operation with BOC and its associates, we consider the New Annual Caps, including the respective basis of determination for each of the Continuing Connected Transactions, are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

CONCLUSION AND ANALYSIS

As one of the leading commercial banking group in Hong Kong, the Group targets to offer a comprehensive range of financial products and services to retail and corporate customers. The Investment Connected Transactions and the Inter-bank Connected Transactions are transactions between the Group and BOC and its associates and are considered as part of the comprehensive banking services of the Group. Such transactions have been conducted in the ordinary course of its business, on normal commercial terms and on terms no less favourable than those with independent third parties. In addition, the Group has established effective internal control process which includes the establishment of detailed policies and control procedures for all the key activities.

The Investment Connected Transactions and the Inter-bank Connected Transactions are highly market-driven and unpredictable in nature. The Group has in the past experienced the revision for the securities transactions and the inter-bank capital market transactions, which imply that the value and volume of such transactions are difficult to estimate by using historical transaction amounts as a reference to determine their annual caps. In addition, the Group will further strengthen its RMB banking services by expanding its co-operation with BOC and its associates in respect of asset management, stock brokerage and insurance businesses. Based on the above, we consider it is reasonable for the Company to set standard caps for such transactions in the next three years so as not to constrain the Group from doing business with BOC and its associates.

RECOMMENDATION

Based on the principal factors and reasons stated above, we consider that (i) the Continuing Connected Transactions are fair and reasonable and are entered into on normal commercial terms, are carried out in the ordinary course of business of the Company and the entering into of such transactions are in the interests of the Company and the Shareholders as a whole; (ii) the New Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Continuing Connected Transactions and the New Annual Caps.

Yours faithfully,
For and on behalf of

Commerzbank AG Hong Kong Branch

Kenneth Chan
Head of Corporate Finance – Asia Pacific

Andrew Yu
Corporate Finance – Asia Pacific

APPENDIX GENERAL INFORMATION

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Xiao Gang and Mr. Li Zaohang are directors of BOC. Mr. Zhou Zaiqun and Mdm. Zhang Yanling are members of the senior management of BOC.

BOC is a joint stock limited liability commercial bank in the PRC providing a full range of commercial banking and other financial services through its associates throughout the world. Certain of the Group's operations overlap with and/or are complementary to those of BOC and its associates. To the extent that BOC or its associates compete with the Group, the Directors believe that the Group's interests are adequately protected by good corporate governance practices and the involvement of the independent non-executive directors.

Further, the Board's mandate also expressly provides that unless permissible under applicable laws or regulations, if a Substantial Shareholder or a Director has a conflict of interest in the matter to be considered by the Board, the matter shall not be dealt with by way of written resolutions, but a Board meeting attended by independent non-executive directors who have no material interest in the matter shall be held to deliberate on the same.

Save as disclosed above, none of the Directors is interested in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

3. DIRECTORS' RIGHTS TO ACQUIRE SHARES

On 5 July, 2002, the following Directors were granted options by BOC (BVI), the immediate holding company of the Company, pursuant to a Pre-Listing Share Option Scheme to purchase from BOC (BVI) existing issued shares of the Company at a price of HK\$8.50 per share. These options have a vesting period of four years from 25 July, 2002 with a valid exercise period of ten years. Twenty-five percent of the shares subject to such options will vest at the end of each year. Particulars of the outstanding options granted to the Directors under the Pre-Listing Share Option Scheme as at the Latest Practicable Date are set out below:

	Date of grant	Exercise price (HK\$)	Exercisable Period	Number of share options					
				Granted on 5 July, 2002	Balance as at 1 January, 2007	Exercised up to Latest Practicable Date	Surrendered up to Latest Practicable Date	Lapsed up to Latest Practicable Date	Balance as at Latest Practicable Date
SUN Changji	5 July, 2002	8.50	25 July, 2003 to 4 July, 2012	1,590,600	1,590,600	-	-	-	1,590,600
HE Guangbei	5 July, 2002	8.50	25 July, 2003 to 4 July, 2012	1,446,000	1,084,500	361,500	-	-	723,000
LI Zaohang	5 July, 2002	8.50	25 July, 2003 to 4 July, 2012	1,446,000	1,446,000	-	-	-	1,446,000
ZHOU Zaiqun	5 July, 2002	8.50	25 July, 2003 to 4 July, 2012	1,446,000	1,446,000	361,500	-	-	1,084,500
ZHANG Yanling	5 July, 2002	8.50	25 July, 2003 to 4 July, 2012	1,446,000	1,446,000	-	-	-	1,446,000
				<u>7,374,600</u>	<u>7,013,100</u>	<u>723,000</u>	<u>-</u>	<u>-</u>	<u>6,290,100</u>

Save as disclosed above, at no time up to the Latest Practicable Date was the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

APPENDIX GENERAL INFORMATION

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

As at the Latest Practicable Date, the Directors, the chief executive of the Company and their respective associates had the following interests in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers:

Name of Director	Number of shares/underlying shares held				Total	% of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
SUN Changji	1,590,600 ¹	–	–	–	1,590,600	0.015
HE Guangbei	823,000 ²	–	–	–	823,000	0.008
LI Zaohang	1,446,000 ¹	–	–	–	1,446,000	0.014
ZHOU Zaiqun	1,085,000 ³	–	–	–	1,085,000	0.010
ZHANG Yanling	1,446,000 ¹	–	–	–	1,446,000	0.014

Note 1: Such interests represent the respective Directors' interests in the underlying shares in respect of the share options granted to him/her pursuant to the Pre-Listing Share Option Scheme on 5 July, 2002, details of which are set out in the section titled "Directors' Rights to Acquire Shares" above.

Note 2: Such interests include Mr He's interests in 100,000 Shares and interests in 723,000 underlying shares in respect of the share options granted to him pursuant to the Pre-Listing Share Option Scheme on 5 July, 2002, details of which are set out in the section titled "Directors' Rights to Acquire Shares" above.

Note 3: Such interests include Mr Zhou's interests in 500 Shares and interests in 1,084,500 underlying shares in respect of the share options granted to him pursuant to the Pre-Listing Share Option Scheme on 5 July, 2002, details of which are set out in the section titled "Directors' Rights to Acquire Shares" above.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

5. SUBSTANTIAL INTERESTS IN SHARE CAPITAL

The register maintained by the Company pursuant to section 336 of the SFO recorded that, as at the Latest Practicable Date, the following parties had the following interests (as defined in the SFO) in the Company set opposite their respective names:

Name of Corporation	No. of Shares held (% of total issued Shares)
Central SAFE	6,953,617,435 (65.77%)
BOC	6,953,617,435 (65.77%)
BOCHKG	6,949,330,256 (65.73%)
BOC (BVI)	6,949,330,256 (65.73%)

Notes:

- Following the reorganization of BOC in August 2004, Central SAFE holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central SAFE is deemed to have the same interests in the Company as BOC.
- BOC holds the entire issued share capital of BOCHKG, which in turn holds the entire issued share capital of BOC (BVI). Accordingly, BOC and BOCHKG are deemed to have the same interests in the Company as BOC (BVI) for the purpose of the SFO. BOC (BVI) beneficially held 6,949,330,256 shares of the Company.
- BOC holds the entire issued share capital of BOC Insurance. Accordingly, for the purpose of the SFO, BOC is deemed to have the same interests in the Company as BOC Insurance which had an interest in 4,000,000 shares of the Company.

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4. BOC holds the entire issued share capital of BOCI, which in turn holds the entire issued share capital of BOCI Asia Limited and BOCI Financial Products Limited. Accordingly, BOC is deemed to have the same interests in the Company as BOCI Asia Limited and BOCI Financial Products Limited for the purpose of the SFO. BOCI Asia Limited had an interest in 91,500 shares of the Company and an interest in 117,000 shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 78,679 shares of the Company.

All the interests disclosed above represent long positions. Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or the chief executive of the Company, no other person (not being a Director or the chief executive of the Company) who had any interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

6. OTHER ARRANGEMENTS INVOLVING DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group; and
- (b) none of the Directors had any direct or indirect interest in any assets which had been, since 31 December, 2006 (the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) are proposed to be acquired or disposed of by; or (iv) are proposed to be leased to any member of the Group.

7. SERVICE CONTRACTS

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

8. QUALIFICATIONS OF THE EXPERT

The qualifications of any experts who have been named in this circular or has given advice or opinions contained in this circular are as follows:

Name	Qualification
Commerzbank	A licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and an authorized financial institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO

Commerzbank has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter or its name in the form and context in which it appears.

Commerzbank does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Commerzbank does not have any direct or indirect interests in any assets which have been, since 31 December, 2006 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

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9. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December, 2006, being the date to which the latest published audited financial statements of the Group were made up.

10. MISCELLANEOUS

- The registered office of the Company is at 52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong.
- The share registrar of the Company is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- The English text of this circular prevails over the Chinese text in case of any inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company, at 52nd Floor, Bank of China Tower, 1 Garden Road, Hong Kong from the date of this circular up to and including the date of the EGM.

- (a) the Memorandum and Articles of Association;
- (b) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 13 of this circular;
- (c) the letter from Commerzbank, the text of which is set out on pages 14 to 22 of this circular;
- (d) the Services and Relationship Agreement; and
- (e) the annual report of the Company for each of the two financial years ended 31 December, 2005 and 31 December, 2006.