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**中銀香港(控股)有限公司**

**BOC HONG KONG (HOLDINGS) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(the “Company”, Stock Code: 2388)**

## **ANNOUNCEMENT**

### **CONTINUING CONNECTED TRANSACTIONS**

In the ordinary course of its business, the Group conducts the Continuing Connected Transactions with BOC and its associates, of which the Disclosed Continuing Connected Transactions have been disclosed in the announcements dated January 4, 2005, April 11, 2006, August 28, 2007 and January 2, 2008, respectively. In addition, the estimated transaction amounts for the New Continuing Connected Transactions are expected to exceed the de minimis thresholds of 0.1% of the applicable percentage ratios as defined in the Listing Rules and are subject to the disclosure requirements under the Listing Rules.

The Continuing Connected Transactions will continue following the expiration of the financial year ending December 31, 2010. The Company has assigned new annual caps for each of the three financial years ending December 31, 2013 (the “**New Caps**”) in respect of the Continuing Connected Transactions.

Given that the News Caps in respect of the General Connected Transactions represent less than 5% of the applicable percentage ratios as defined in the Listing Rules, the General Connected Transactions fall within Rule 14A.34 of the Listing Rules, and are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules.

Given that the New Caps in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions represent 5% or more of the applicable percentage ratios as defined in the Listing Rules, the Investment Connected Transactions and the Inter-bank Connected Transactions constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules, and are subject to the reporting, announcement and independent shareholders’ approval requirements under Rules 14A.45 to 14A.48 and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules.

The Board has set up the Independent Board Committee to review and approve the Continuing Connected Transactions. The Company has appointed KBC Bank as an independent financial adviser to advise the Independent Board Committee and the independent shareholders of the Company for the purpose of considering the Investment Connected Transactions and the Inter-bank Connected Transactions.

A circular containing, among other things, (i) details of the Investment Connected Transactions and the Inter-bank Connected Transactions and the New Caps in respect thereof; (ii) a letter from KBC Bank to the Independent Board Committee and the independent shareholders of the Company containing its advice on the Investment Connected Transactions and the Inter-bank Connected Transactions; and (iii) the recommendation of the Independent Board Committee in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions, will be dispatched to the shareholders of the Company on or about January 20, 2011. A notice of the EGM will be dispatched to the shareholders of the Company separately.

## **BACKGROUND TO THE CONTINUING CONNECTED TRANSACTIONS**

The Group conducts the Continuing Connected Transactions with BOC and its associates in the ordinary and usual course of its business on normal commercial terms. As of the date of this announcement, BOC indirectly controls approximately 66.06% of the issued shares of the Company and is the controlling shareholder of the Company. Accordingly, BOC and its associates are connected persons of the Company under the Listing Rules.

Pursuant to the Services and Relationship Agreement, BOC has agreed to, 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 Continuing Connected Transactions are governed by the Services and Relationship Agreement and/or other specific agreements. The Services and Relationship Agreement, as amended, is for a period of three years commencing January 1, 2011. The Services and Relationship Agreement is also amended to allow for the provision of (i) call center services, cash management services and card services and other related business between BOC or its associates and the Group; and (ii) information technology services by the Group to BOC's worldwide branches and subsidiaries.

The annual caps for each of the financial years ended December 31, 2008 and 2009 in respect of the Continuing Connected Transactions have not been exceeded. Based on the information available to the Company up to the date of this announcement, the Company does not expect the annual caps for the financial year ending December 31, 2010 to be exceeded.

## PARTICULARS OF THE CONTINUING CONNECTED TRANSACTIONS

Details of the Continuing Connected Transactions, comprising the General Connected Transactions, the Investment Connected Transactions and the Inter-bank Connected Transactions, and the New Caps are set out below.

### General Connected Transactions

#### 1. *Information Technology Services*

BOCHK provides various information technology services to BOC's branches and associates in Hong Kong, Macau, the Asia-Pacific region, Europe and China. These services include technical consultancy, specific computer systems and software development, systems maintenance, operation, support, network installation, user training and support, control and supervision of system security and safety services. In return, BOCHK receives a fee on the basis of costs plus a margin of 5%. These services are provided on normal commercial terms.

The table below sets out the historical fees and the New Caps for the information technology services:

	<u>2008</u>	<u>2009</u>	<u>2010*</u>
Historical fees ( <i>HK\$ million</i> )	42.37	39.81	28.85
	<u>2011</u>	<u>2012</u>	<u>2013</u>
New Caps ( <i>HK\$ million</i> )	1,000	1,000	1,000

\* For the nine months ended September 30, 2010 while the annual caps for each of the three years ending December 31, 2010 is HK\$1,100 million.

#### 2. *Property Transactions*

##### 2.1 *Leases and licences*

The Group leases various premises from and to BOC and its associates in Hong Kong and China pursuant to various leases and licences agreements at prevailing market rates at the relevant times. These arrangements are conducted on normal commercial terms.

##### 2.2 *Property management and letting agency*

Sun Chung provides property management and letting services to BOCHK at Bank of China Tower, Bank of China Building, Bank of China Centre and other properties as required from time to time. In return, Sun Chung receives (i) a monthly management fee which is partially paid by the Group's tenants with the remainder paid by the Group in respect of the office space used by the Group; (ii) a commission payment based on the total rents collected for the buildings, which includes notional rents in respect of office space used by the Group; and (iii) commission payments provided that either Sun Chung is able to find new tenants for the buildings or the existing tenants renew their leases with the Group. These arrangements are conducted on normal commercial terms.

The table below sets out historical revenues and payments and the New Caps (for the avoidance of doubt, the amounts paid and received by the Group are not netted for the purposes of calculating the New Caps) for all of the property transactions described above:

	<u>2008</u>	<u>2009</u>	<u>2010*</u>
Historical revenues and payments (HK\$ million)	103.58	94.45	76.04
	<u>2011</u>	<u>2012</u>	<u>2013</u>
New Caps (HK\$ million)	1,000	1,000	1,000

\* For the nine months ended September 30, 2010 while the annual caps for each of the three years ending December 31, 2010 is HK\$1,100 million.

### 3. *Bank-note Delivery*

BOCHK provides bank-note delivery services to BOC and its associates for fees based on market rates.

The table below sets out the historical fees and the New Caps for the bank-note delivery services:

	<u>2008</u>	<u>2009</u>	<u>2010*</u>
Historical fees (HK\$ million)	87.58	75.68	57.50
	<u>2011</u>	<u>2012</u>	<u>2013</u>
New Caps (HK\$ million)	1,000	1,000	1,000

\* For the nine months ended September 30, 2010 while the annual caps for each of the three years ending December 31, 2010 is HK\$1,100 million.

### 4. *Provision of Insurance Cover*

BOC Insurance and BOC Life provide insurance cover to the Group including, without limitation, cash and cash transit insurance, group medical insurance, group life insurance, employee compensation insurance, public liability insurance, accidental damage to property insurance, banker's bond insurance and directors' and officers' liability insurance. These arrangements are conducted on normal commercial terms.

The table below sets out the historical premiums paid by the Group and the New Caps for provision of insurance to the Group:

	<u>2008</u>	<u>2009</u>	<u>2010*</u>
Historical premiums (HK\$ million)	104.79	102.75	104.82
	<u>2011</u>	<u>2012</u>	<u>2013</u>
New Caps (HK\$ million)	1,000	1,000	1,000

\* For the nine months ended September 30, 2010 while the annual caps for each of the three years ending December 31, 2010 is HK\$1,100 million.

## 5. *Card Services*

BOC acts as an agent bank for BOC-CC in connection with BOC-CC's merchant acquiring business in China and promotes such business for a percentage of the transaction amount. In addition, BOC and BOC-CC share the profits from the dynamic currency conversion services for merchant acquiring business of international card in China. BOC and BOC-CC also share the transaction-handling fees which cardholders are charged for over-the-counter cash withdrawals in China. BOC also provides training to its staff in its provincial branches throughout China in connection with BOC-CC's business.

BOC also co-operates with BOC-CC in China to provide back-office support services to card services of BOC and China business development of BOC-CC. All these arrangements and transactions are conducted on normal commercial terms.

Each of BOC Macau branch and Tai Fung Bank, a subsidiary of BOC, promotes BOC-CC's cards bearing their respective names, to their customers in Macau and provides other services to BOC-CC such as processing and approving applications received and collecting payments for such cards. In addition to their card issuing services, BOC Macau branch and Tai Fung Bank provide services for BOC-CC's merchant acquiring business in Macau.

BOC-CC provides operational, administrative and technical support services to BOC for BOC's Great Wall International Card and agency services for BOC's Great Wall Renminbi Card. It also provides back-office settlement and other services to BOC Macau branch and BOC Zhuhai branch in connection with their Renminbi Cards.

In addition, BOC-CC also provides middle and back office support services, including but not limited to, business and product development, information technology services, customer support services, training services, project management, business consultancy, operation consultancy and support and other related support services to BOC's overseas branches in relation to their credit card, debit card and prepaid card businesses. BOC-CC and BOC's overseas branches and subsidiaries also enter into strategic alliance for cooperation in development of card and related services.

The table below sets out the historical aggregate commissions and payments and the New Caps (for the avoidance of doubt, the amounts paid and received by the Group are not netted for the purposes of calculating the New Caps) for all of the card services and transactions described above:

	<u>2008</u>	<u>2009</u>	<u>2010*</u>
Historical commissions and payments ( <i>HK\$ million</i> )	116.28	56.87	32.62
	<u>2011</u>	<u>2012</u>	<u>2013</u>
New Caps ( <i>HK\$ million</i> )	1,000	1,000	1,000

\* For the nine months ended September 30, 2010 while the annual caps for each of the three years ending December 31, 2010 is HK\$1,100 million.

## 6. Custody Business

The Group provides and receives custody-related services to or from its own subsidiaries and BOC and its associates. The custody-related services provided by the Group mainly cover safekeeping, settlement, corporate action handling and reporting. Most of these transactions are conducted through custody accounts opened at BOCHK under BOC's own name but for third party beneficiaries (such as qualified domestic institutional investors in the PRC). BOCHK receives and pays custody fees from and to its own subsidiaries and BOC and its associates, such fees being based on normal commercial terms.

During the two years ended December 31, 2009 and the year ending December 31, 2010, the fees received and paid in relation to the custody business have been, or are expected to be, respectively, within the de minimis thresholds of 0.1% of the applicable percentage ratios as defined in the Listing Rules and hence were or are, respectively, exempt from the reporting and announcement requirements. The table below sets out the historical custody fees and the New Caps (for the avoidance of doubt, the amounts paid and received by the Group are not netted for the purposes of calculating the New Caps) for the custody business transactions described above:

	<b>2008</b>	<b>2009</b>	<b>2010*</b>
Historical custody fees ( <i>HK\$ million</i> )	46.10	38.40	27.38
	<b>2011</b>	<b>2012</b>	<b>2013</b>
New Caps ( <i>HK\$ million</i> )	1,000	1,000	1,000

\* For the nine months ended September 30, 2010. This transaction, which is newly announced, previously fell within the de minimis threshold and therefore no historical caps were set.

## 7. Call Center Services

Since 2010, in the ordinary course of its business, the call center of the Group has outsourced its operations in China to a subsidiary of BOC. The Group pays service charges, based on normal commercial terms.

During the year ending December 31, 2010, the fees paid in relation to the call center services are expected to be within the de minimis thresholds of 0.1% of the applicable percentage ratios as defined in the Listing Rules and hence are exempt from the reporting and announcement requirements. The table below sets out the historical payments and the New Caps for the call center services described above:

	<b>2008</b>	<b>2009</b>	<b>2010*</b>
Historical payments ( <i>HK\$ million</i> )	N/A	N/A	9.70
	<b>2011</b>	<b>2012</b>	<b>2013</b>
New Caps ( <i>HK\$ million</i> )	1,000	1,000	1,000

\* For the nine months ended September 30, 2010. This transaction, which is newly announced, previously fell within the de minimis threshold and therefore no historical caps were set.

## Investment Connected Transactions

### 8. *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 Caps for the securities transactions described above:

	<b>2008</b>	<b>2009</b>	<b>2010*</b>
Historical commissions (net of rebate) and revenues ( <i>HK\$ million</i> )	324.49	440.82	259.09
	<b>2011</b>	<b>2012</b>	<b>2013</b>
New Caps ( <i>HK\$ million</i> )	3,500	5,000	7,500

\* For the nine months ended September 30, 2010 while the annual caps for the years ending December 31, 2008, 2009 and 2010 were HK\$2,700 million, HK\$4,000 million and HK\$6,000 million, respectively.

## 9. Fund Distribution Transactions

As one of the leading financial services providers in Hong Kong, the Group renders fund distribution services to fund suppliers (including BOCI-Prudential Manager) in its ordinary course of business. The Group promotes and sells various fund products, including guaranteed fund and open-ended fund products, in its capacity as an intermediary for BOCI-Prudential Manager. The Group receives a commission rebate on the basis of a certain percentage of the management fee received by these entities in relation to the guaranteed funds. As for the 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. All fees and commissions payable by the fund suppliers (including BOCI-Prudential Manager) are calculated with reference to the prevailing market rates and the underlying transaction volumes based on an agreed fee schedule.

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

	<b>2008</b>	<b>2009</b>	<b>2010*</b>
Historical commissions and rebates (HK\$ million)	70.49	46.61	42.12
	<b>2011</b>	<b>2012</b>	<b>2013</b>
New Caps (HK\$ million)	3,500	5,000	7,500

\* For the nine months ended September 30, 2010 while the annual caps for the years ending December 31, 2008, 2009 and 2010 were HK\$2,700 million, HK\$4,000 million and HK\$6,000 million, respectively.

## 10. 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 Caps for the insurance agency services:

	<b>2008</b>	<b>2009</b>	<b>2010*</b>
Historical commissions (HK\$ million)	343.43	393.26	339.65
	<b>2011</b>	<b>2012</b>	<b>2013</b>
New Caps (HK\$ million)	3,500	5,000	7,500

\* For the nine months ended September 30, 2010 while the annual caps for the years ending December 31, 2008, 2009 and 2010 were HK\$2,700 million, HK\$4,000 million and HK\$6,000 million, respectively.



## Inter-bank Connected Transactions

### 11. 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 revenues and the New Caps for the foreign exchange transactions described above:

	<b>2008</b>	<b>2009</b>	<b>2010*</b>
Historical revenues ( <i>HK\$ million</i> )	200.44	41.05	9.42
	<b>2011</b>	<b>2012</b>	<b>2013</b>
New Caps ( <i>HK\$ million</i> )	3,500	5,000	7,500

\* For the nine months ended September 30, 2010 while the annual caps for the years ending December 31, 2008, 2009 and 2010 were HK\$2,700 million, HK\$4,000 million and HK\$6,000 million, respectively.

### 12. Trading of Financial Assets

The Group enters into various transactions with BOC and its branches, in which BOC and its branches buy or sell secondary interests in loans from and to the Group. Trading of accounts receivables, forfeitings and other similar types of financial assets are also included in this category. 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 Caps for such transactions:

	<b>2008</b>	<b>2009</b>	<b>2010*</b>
Historical value ( <i>HK\$ million</i> )	4,149.94	12,177.45	14,851.72
	<b>2011</b>	<b>2012</b>	<b>2013</b>
New Caps ( <i>HK\$ million</i> )	100,000	150,000	250,000

\* For the nine months ended September 30, 2010 while the annual caps for the years ending December 31, 2008, 2009 and 2010 were HK\$50,000 million, HK\$75,000 million and HK\$110,000 million, respectively.

### 13. 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 Caps for such transactions:

	<b>2008</b>	<b>2009</b>	<b>2010*</b>
Historical value ( <i>HK\$ million</i> )	1,709.31	5,183.41	8,975.70
	<b>2011</b>	<b>2012</b>	<b>2013</b>
New Caps ( <i>HK\$ million</i> )	100,000	150,000	250,000

\* For the nine months ended September 30, 2010 while the annual caps for the years ending December 31, 2008, 2009 and 2010 were HK\$50,000 million, HK\$75,000 million and HK\$110,000 million, respectively.

### REASONS AND BASIS FOR THE ANNUAL CAPS

#### General Connected Transactions

The Company intends to set the New Caps for each of the three financial years ending December 31, 2013 in respect of each of the General Connected Transactions at HK\$1,000 million.

The General Connected Transactions in general are mainly transactions with BOC for mutual benefits or synergy (e.g. card services, information technology services, property transactions, bank-notes delivery, provision of insurance cover, custody business and call center services). The historical transaction amounts of the General Connected Transactions are relatively stable as compared to the Investment Connected Transactions and the Inter-bank Connected Transactions. The transactions amounts of the General Connected Transactions are subject to a number of uncertainties, such as any possible increases in the inflation rate, the business environment of the banking industry, property markets and insurance market etc., and may vary in the forthcoming three years. The New Caps are set at a standard amount of HK\$1,000 million which have been determined with reference to the expected growth of transactions with BOC. With the further strengthening of the Group's relationship with BOC, the Group expects the amounts of the General Connected Transactions to increase as compared to the historical amounts. Given the New Caps are estimated to be less than 5% of all applicable percentage ratios as defined in the Listing Rules, it is beneficial to set the annual caps at a standard amount of HK\$1,000 million so as to allow more room for the Group's planned expansion into the PRC market. Given the continued growth of the PRC economy and the Group's strategy on long-term development of RMB banking business in Hong Kong, greater transaction volumes and amounts are expected between the Group and BOC (e.g. card services and bank-note delivery services). Therefore, it is reasonable to set a buffer for the New Caps by taking into account the further strengthening of the Group's business relationship with BOC. In this connection, the directors of the Company (including the independent non-executive directors) are of the view that the New Caps are in the interests of the Company and its shareholders as a whole.

## **Investment Connected Transactions and the Inter-bank Connected Transactions**

The Investment Connected Transactions involve activities which are regulated by various regulatory bodies in Hong Kong, such as the Hong Kong Monetary Authority, the Securities and Futures Commission and the Office of the Commissioner of Insurance. The Investment Connected Transactions are market driven and unpredictable in nature. The securities transactions are subject to the sentiment of the stock market whereas the Inter-bank Connected Transactions are based on customers' decision on their wealth management portfolio (e.g. stock, trust fund and foreign currency etc.), both of which are not within the Group's control. The insurance agency transactions relate primarily to the insurance market and the volume and amounts of such transactions are also subject to external factors outside the Group's control. The total transaction amount of the Investment Connected Transactions increased significantly by approximately 19.5% in 2009 as compared to 2008 amid the challenging operating environment as a result of the global financial turmoil in the last quarter of 2008 which has adversely affected the global economy in the beginning of 2009. Such significant increase was mainly due to various economic stimulus packages implemented by governments around the world, in particular, the "4 trillion stimulus package" promulgated by the PRC government, which has substantially offset or even turned around the adverse impact of the financial turmoil and resulted a recovery in the stock market during 2009. Accordingly, a standard cap amount of HK\$3,500 million is proposed for each of the Investment Connected Transactions for the year ending December 31, 2011. 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\$39,500 million for the year ended December 31, 2009 after taking into account the average growth rate of the Group for the five years ended December 31, 2009, of approximately 10.6%. For each of the two years ending December 31, 2013, an annual growth rate of approximately 50% is applied on the annual cap for the year ending December 31, 2011 to set the respective annual caps for each of the Investment Connected Transactions. Such annual growth rate, which is considered to be difficult for the Group to estimate, has been determined after taking into account the market-driven nature of the Investment Connected Transactions. Since the transaction amounts of the Investment Connected Transactions may vary significantly due to the unexpected fluctuations of the financial markets, the directors of the Company (including the independent non-executive directors) consider setting standard cap amounts for the Investment Connected Transactions for each of the three years ending December 31, 2013 is in the interests of the Company and its shareholders as a whole.

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. Moreover, a foreign exchange transaction needs to roll over twice every month, and the total amount incurred from such transaction will therefore be rolled over 24 times over the course of a year. Accordingly, the historical transaction amounts are not a good indicator to estimate the future transaction amounts.

The foreign exchange transactions include spot, forward and outright transactions, which may vary significantly depending on the prevailing market rates. The revenue or loss generated from these transactions is largely dependent on the relative strength or weakness of the currency, which is beyond the Company's control. Given the market-driven nature of the foreign exchange transactions, it is difficult for the Group to estimate the future transaction amounts, the New Caps of this transaction are set at the same amounts as those of Investment Connected Transactions. The directors of the Company (including the independent non-executive directors) consider the New Caps for the foreign exchange transactions for the three years ending December 31, 2013 are in the interests of the Company and its shareholders as a whole.

The trading of financial assets and the inter-bank capital markets transactions involve dollar bills and exchange fund notes, of which the Group is one of the market makers in Hong Kong. The amount for the trading of inter-bank capital market transactions and financial assets transactions increased significantly by approximately 203.2% and 193.4% in 2009 as compared to 2008, respectively. Given the great uncertainties of these two transactions which may vary subject to market conditions, the annual cap for the year ending December 31, 2011 is set with reference to 5% of the total assets of the Group (adjusted to take into account the payment of the final dividend for the year ended December 31, 2009 of approximately HK\$6,027 million) of approximately HK\$124,067.6 million as at December 31, 2009 (being the benchmark figure adopted internally by the Company with reference to the Company's experience in similar transactions and which the Company considers reasonable given the volatility of the capital markets) and after taking into account the average growth rate of the Group for the five years ended December 31, 2009, of approximately 10%. For each of the two years ending December 31, 2013, an annual growth rate of approximately 50% is applied on the annual cap for the year ending December 31, 2011 to set the respective annual caps for each of the trading of financial assets and the inter-bank capital markets. Such annual growth rate, which is considered to be difficult for the Group to estimate, has been determined after taking into account the market-driven nature of the trading of financial assets and the inter-bank capital markets. Such annual caps provides flexibility for the Group to accommodate future unexpected volatility of the financial markets and the directors of the Company (including the independent non-executive directors) consider the annual caps are in the interests of the Company and its shareholders as a whole.

## **LISTING RULES REQUIREMENTS**

### **General Connected Transactions**

Given that the New Caps in respect of the General Connected Transactions represent less than 5% of the applicable percentage ratios as defined in the Listing Rules, the General Connected Transactions fall within Rule 14A.34 of the Listing Rules, and are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules.

### **Investment Connected Transactions and Inter-bank Connected Transactions**

Given that the New Caps in respect of the Investment Connected Transactions and the Interbank Connected Transactions represent 5% or more of the applicable percentage ratios as defined in the Listing Rules, the Investment Connected Transactions and the Inter-bank Connected Transactions constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules, and are subject to the reporting, announcement and independent shareholders' approval requirements under Rules 14A.45 to 14A.48 and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules. As the Investment Connected Transactions and the Inter-bank Connected Transactions continue following the expiration of the financial year ending December 31, 2010, each of the aggregate transaction values of the Investment Connected Transactions and the Inter-bank Connected Transactions will be closely monitored to ensure that they fall within 5% of the applicable percentage ratios as defined in the Listing Rules, prior to obtaining approval from the independent shareholders of the Company at the EGM. Various control mechanisms have been adopted by the Company to ensure that the relevant connected transactions fall within the 5% threshold. Such mechanisms include generating monthly reports showing the transaction figures for each of the relevant connected transaction, and imposing a lower threshold as an internal cap whereby a warning signal will be issued and preventive measures will be taken immediately if the relevant connected transaction 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 amounts of such connected transactions fall within the 5% threshold for the remaining of the year. Further, pursuant to the Services and Relationship Agreement, the Company has the right to exit the relevant connected transactions by giving prior written notice to BOC or its associates, as the case may be.

The board of directors of the Company 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 give recommendations to the independent shareholders. The Company has appointed KBC Bank as the independent financial adviser to advise the Independent Board Committee and the shareholders of the Company for the purpose of considering whether the Continuing Connected Transactions have been entered into in the ordinary and usual course of the Group's business, on normal commercial terms, are fair and reasonable, and are in the interest of the Company and its shareholders as a whole.

The directors of the Company (including the independent non-executive directors) have confirmed that they are satisfied that the General Connected Transactions, 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 interest of the Company and its shareholders as a whole. Certain non-executive directors of the Company, namely Mr. Xiao Gang, Mr. Li Lihui, Mr. Li Zaohang and Mr. Zhou Zaiqun are also executive directors of BOC. Mdm. Zhang Yanling, a non-executive director of the Company, is a former executive vice-president of BOC (she ceased to be an executive vice president of BOC on July 23, 2010). Accordingly, Mr. Xiao Gang, Mr. Li Lihui, Mr. Li Zaohang, Mr. Zhou Zaiqun and Mdm. Zhang Yanling abstained from voting on the resolutions in respect of the Continuing Connected Transactions at the meeting of the board of directors of the Company.

A circular containing, among other things, (i) details of the Investment Connected Transactions and the Inter-bank Connected Transactions and the New Caps in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions; (ii) a letter from KBC Bank to the Independent Board Committee and the independent shareholders of the Company containing its advice on the Investment Connected Transactions and the Inter-bank Connected Transactions; and (iii) the recommendation of the Independent Board Committee in respect of the Investment Connected Transactions and the Inter-bank Connected Transactions, will be dispatched to the shareholders of the Company on or about January 20, 2011. A notice of the EGM will be dispatched to the shareholders of the Company separately.

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.

## **INFORMATION ON THE GROUP AND BOC**

The Company was incorporated in Hong Kong on September 12, 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.

The Group is a leading commercial banking group in Hong Kong. As of December 31, 2009, the Group had over 270 branches and 480 ATMs and other delivery channels in Hong Kong. With these channels, the Group offers a comprehensive range of financial products and services to individual and corporate customers. BOCHK is one of the three banknote issuing banks in Hong Kong. BOCHK is appointed by the People's Bank of China as the Clearing Bank for Renminbi business in Hong Kong. In addition, as of December 31, 2009, the Group had 23 branches and sub-branches in the PRC. Through these branches and sub-branches, the Group provides local and cross-border banking services to customers in Hong Kong and the PRC.

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

BOC is the fifth largest listed bank in the world in terms of total market capitalisation at the end of 2009. 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 11,700 automated service machines throughout the PRC, as of December 31, 2009. BOC also has an extensive international network, which comprises over 600 overseas branches, subsidiaries and representative offices covering 29 countries and regions, and BOC has correspondent banking relationships with over 1,400 foreign banks, as of December 31, 2009. 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 June 1, 2006, and the A shares of the Company began trading on the Shanghai Stock Exchange on July 5, 2006, respectively.

## DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context otherwise requires:

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“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 as at the date of this announcement, indirectly controls approximately 66.06% of the equity capital in the Company
“BOC-CC”	BOC Credit Card (International) Limited, a company incorporated under the laws of Hong Kong and a 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
“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 Securities”	BOCI Securities Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCI
“Company”	BOC Hong Kong (Holdings) Limited, a company incorporated under the laws of Hong Kong, the shares of which are listed on the Stock Exchange
“Continuing Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions” of this announcement

“Disclosed Continuing Connected Transactions”	all Continuing Connected Transactions, other than the New Continuing Connected Transactions
“EGM”	the extraordinary general meeting of the Company to be held immediately following the conclusion of the annual general meeting of the Company, tentatively scheduled to be held in May 2011 to approve the Investment Connected Transactions and the Inter-bank Connected Transactions
“General Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – General Connected Transactions” of this announcement
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region
“Independent Board Committee”	a committee of the board of directors of the Company comprising all the independent non-executive directors of the Company
“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 announcement
“Investment Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – Investment Connected Transactions” of this announcement
“KBC Bank”	KBC Bank N.V., acting through its Hong Kong Branch, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and a registered institution registered for Type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (and a “ <b>Rule</b> ” means a rule of the Listing Rules)
“Macau”	Macau Special Administrative Region
“New Continuing Connected Transactions”	the Custody Business and Call Center Service, further details of which are set out in the section headed “Particulars of the Continuing Connected Transactions – General Connected Transactions – 6. Custody Business” and “Particulars of the Continuing Connected Transactions – General Connected Transactions – 7. Call Center Services” of this announcement



“PRC” or “China”	The People’s Republic of China which, for the purposes of this announcement only, excludes Hong Kong, Macau and Taiwan
“Services and Relationship Agreement”	the Services and Relationship Agreement among, inter alia, the Company and BOC dated July 6, 2002 (as amended and supplemented from time to time)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sun Chung”	Sun Chung Property Management Company Limited, a company incorporated under the laws of Hong Kong and an indirect wholly owned subsidiary of BOC
“Tai Fung Bank”	Tai Fung Bank Limited, a company incorporated under the laws of Macau and a subsidiary of BOC

By Order of the Board  
**Jason C.W. YEUNG**  
*Company Secretary*

Hong Kong, December 30, 2010

*As at the date of this announcement, the board of directors of the Company comprises Mr. XIAO Gang\* (Chairman), Mr. LI Lihui\* (Vice-chairman), Mr. HE Guangbei (Vice-chairman and Chief Executive), Mr. LI Zaohang\*, Mr. ZHOU Zaiqun\*, Mdm. ZHANG Yanling\*, Mr. GAO Yingxin, Dr. FUNG Victor Kwok King\*\*, Mr. KOH Beng Seng\*\*, Mr. SHAN Weijian\*\*, Mr. TUNG Chee Chen\*\* and Mr. TUNG Savio Wai-Hok\*\*.*

\* *Non-executive directors*

\*\* *Independent non-executive directors*