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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.

If you have sold or transferred all your shares in **BOC Hong Kong (Holdings) Limited** (中銀香港(控股)有限公司), you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

(Stock Code: 2388)

CONTINUING CONNECTED TRANSACTIONS

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



KBC Bank N.V. Hong Kong Branch

A letter from the Board is set out on pages 5 to 11 of this circular. A letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 12 of this circular. A letter from KBC Bank, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 13 to 22 of this circular. A notice for convening the EGM to approve the Continuing Connected Transactions and the New Caps, together with the proxy form for such purpose, will be dispatched separately to the Shareholders in or around April 2011.

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DEFINITIONS

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

“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 approximately 66.06% of the equity capital in the Company as at the Latest Practicable Date
“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
“BOCHK”	Bank of China (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of the Company
“BOCHK Group”	BOCHK and its subsidiaries
“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 Securities”	BOCI Securities Limited, a company incorporated under the laws of Hong Kong and a wholly owned subsidiary of BOCI
“Central Huijin”	Central Huijin Investment Limited (formerly known as Central SAFE Investments Limited)
“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
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

DEFINITIONS

“Continuing Connected Transactions”	the Investment Connected Transactions and the Inter-bank Connected Transactions
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the 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 2011 to approve the Continuing Connected Transactions and the New Caps
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the board of directors of the Company comprising all the independent non-executive Directors
“Independent Shareholders”	Shareholders 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” in the Letter from the Board in this circular
“Investment Connected Transactions”	the continuing connected transactions set out in the section headed “Particulars of the Continuing Connected Transactions – Investment Connected Transactions” in the Letter from the Board in this circular
“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)
“Latest Practicable Date”	January 14, 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	Macau Special Administrative Region of the PRC
“New Caps”	the new caps for each of the three years ending December 31, 2013 in respect of the Continuing Connected Transactions
“PRC” or “China”	the People’s Republic of China and for the purpose of this circular excluding 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)
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$5.00 each in the share capital of the Company

DEFINITIONS

“Shareholder(s)”	registered holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the same meaning ascribed to it under the Listing Rules



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. 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
- ** Mr. TUNG Savio Wai-Hok

* *non-executive Directors*

** *independent non-executive Directors*

Registered office:

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

January 20, 2011

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

Reference is made to the announcement of the Company dated December 30, 2010 relating to, among other things, the Continuing Connected Transactions and the New 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. As at the Latest Practicable Date, 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 centre services, cash management services and card services and other related business between BOC or its associates and our Group; and (ii) information technology services by our Group to BOC's worldwide branches 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 Latest Practicable Date, the Company does not expect the annual caps for the financial year ended December 31, 2010 to be exceeded.

LETTER FROM THE BOARD

The main purposes of this circular are:

- (a) to provide you with further details of the Continuing Connected Transactions and the New Caps; and
- (b) to set out the letter of advice in respect of the Continuing Connected Transactions and the New Caps from KBC Bank 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 Group 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:

	2008	2009	2010*
Historical commissions (net of rebate) and revenues (HK\$ million)	324.49	440.82	259.09
	2011	2012	2013
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 ended December 31, 2008, 2009 and 2010 were HK\$2,700 million, HK\$4,000 million and HK\$6,000 million, respectively.

2. Fund Distribution Transactions

As one of the leading financial services providers in Hong Kong, the Group provides 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.

LETTER FROM THE BOARD

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

	2008	2009	2010*
Historical commissions and rebates (HK\$ million)	70.49	46.61	42.12
	2011	2012	2013
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 ended December 31, 2008, 2009 and 2010 were HK\$2,700 million, HK\$4,000 million and HK\$6,000 million, respectively.

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 Caps for the insurance agency services:

	2008	2009	2010*
Historical commissions (HK\$ million)	343.43	393.26	339.65
	2011	2012	2013
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 ended 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

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

	2008	2009	2010*
Historical revenues (HK\$ million)	200.44	41.05	9.42
	2011	2012	2013
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 ended December 31, 2008, 2009 and 2010 were HK\$2,700 million, HK\$4,000 million and HK\$6,000 million, respectively.

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 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:

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

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

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 Caps for such transactions:

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

* For the nine months ended September 30, 2010 while the annual caps for the years ended 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

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 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

LETTER FROM THE BOARD

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 (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 the 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. 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 (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 the 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\$1,206,764 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 transactions. 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 the New Caps are in the interests of the Company and the Shareholders as a whole.

LISTING RULES REQUIREMENTS

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 comprising all of the independent non-executive Directors to review the Continuing Connected Transactions and the New Caps 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 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 the Shareholders as a whole, and whether the New Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

KBC Bank has confirmed to the Independent Board Committee that, in its opinion, the Investment Connected 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 the Shareholders as a whole, and that the New Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole. On the basis of KBC Bank's advice and their own review, the Directors (including the independent non-executive Directors) have confirmed that they are satisfied that the Investment Connected 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 the Shareholders as a whole, and that the New Caps are fair and reasonable and in the interest of the Company and the 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 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 Continuing Connected Transactions and the New Caps at the EGM.

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 and the New Caps at the meeting of the Board.

EXTRAORDINARY GENERAL MEETING

The Directors propose that the EGM will be held immediately following conclusion of the annual general meeting of the Company, tentatively scheduled to be held in May 2011 to approve the Continuing Connected Transactions and the New Caps. A notice of EGM together with a proxy form will be despatched to the Shareholders in or around April 2011.

As the Investment Connected Transactions and the Inter-bank Connected Transactions continue following the expiration of the financial year ended 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 at the EGM. Various control mechanisms have been adopted by the Company to ensure that the relevant connected transactions falls within the 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 and preventive measures will be taken immediately if the relevant connected transactions reach the internal cap.

In the event that the Independent Shareholders 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.

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 BOCHK Group had 23 branches and sub-branches in the PRC. Through these branches and sub-branches, the BOCHK 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 capitalization 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.

LETTER FROM THE BOARD

BOC has one of the most extensive domestic distribution networks, with over 10,000 branches and outlets, 5,400 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 BOC began trading on the Shanghai Stock Exchange on July 5, 2006, respectively.

RECOMMENDATION

The Directors (including the independent non-executive Directors) have confirmed that they are satisfied that 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 the Shareholders as a whole, and that the New Caps are fair and reasonable and in the interest of the Company and the 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 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 Caps. KBC Bank 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 12 of this circular, which contains its recommendation to the Independent Shareholders, and the letter from KBC Bank set out on pages 13 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



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)

January 20, 2011

To: the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated January 20, 2011 (the "Circular") to the Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise you as to whether, in our opinion, the Continuing Connected Transactions and the New Caps are in the interests of the Company and the Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned. KBC Bank 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 Caps.

We wish to draw your attention to the "Letter from the Board" set out on pages 5 to 11 of the Circular, and the letter from KBC Bank to the Independent Board Committee and Independent Shareholders set out on pages 13 to 22 of the Circular which contains its opinion in respect of the Continuing Connected Transactions and the New Caps.

Having taken into account the advice of KBC Bank and its recommendation in relation thereto, we consider that the Continuing Connected Transactions and the New Caps are in the interests of the Company and the 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 Caps.

Yours faithfully,
TUNG Chee Chen (*Chairman*)
FUNG Victor Kwok King
KOH Beng Seng
SHAN Weijian
TUNG Savio Wai-Hok
Independent Board Committee

LETTER FROM KBC BANK

The following is the letter of advice from KBC Bank to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



39/F Central Plaza
18 Harbour Road
Hong Kong

20 January 2011

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 connection with the Continuing Connected Transactions (including the relevant New Caps), details of which, among other things, are set out in the section headed "Letter from the Board" as contained in the circular of the Company dated 20 January 2011 (the "Circular"), of which this letter forms a part. Unless otherwise defined herein, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

The Group has been conducting a number of continuing connected transactions with BOC and its associates in the ordinary and usual course of its business on normal commercial terms, including the Investment Connected Transactions (comprising the securities transactions, the fund distribution transactions and insurance agency transactions) and Inter-bank Connected Transactions (comprising the foreign exchange transactions, the trading of financial assets transactions and inter-bank capital markets transactions). The principal terms of these continuing connected transactions were governed by the Services and Relationship Agreement entered into between the Company and BOC in July 2002 which were amended on 1 January 2008 to extend the terms of the continuing connected transactions up to 31 December 2010 with a view to continuing the business relationship between the Group and BOC to carry on the Continuing Connected Transactions in the Group's ordinary and usual course of business. The Services and Relationship Agreement has been amended such that the term of the Continuing Connected Transactions will be extended for an additional 3 years commencing from 1 January 2011 and the Company has also assigned the New Caps to each type of the Continuing Connected Transactions for each of the three financial years ending 31 December 2013.

Since BOC holds approximately 66.06% of the issued share capital of the Company, BOC and its associates are connected persons of the Company under the Listing Rules and the Continuing Connected Transactions will constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As the applicable ratio(s) (as defined under the Listing Rules) in respect of the Continuing Connected Transactions are more than 5% and the relevant New Caps exceed HK\$10 million, the Continuing Connected Transactions constitute non-exempt continuing connected transactions under the Listing Rules and are subject to (i) the annual review requirements under Rule 14A.37 to 14A.40 of the Listing Rules; (ii) the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and (iii) the Independent Shareholders' approval requirements under Rule 14A.48 of the Listing Rules. BOC and its associates are required to abstain from voting at the EGM in relation to the resolutions in respect of the Continuing Connected Transactions.

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 and Mr. Tung Savio Wai-Hok, has been established to advise the Independent Shareholders in respect of the Continuing Connected Transactions (including the relevant New Caps). We, KBC Bank N.V. Hong Kong Branch, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether (i) the Continuing Connected Transactions are conducted in the ordinary and usual course of the business of the Group and on normal commercial terms; (ii) the terms of the Continuing Connected Transactions (including the relevant New Caps) are fair and reasonable in so far as the Independent Shareholders are concerned; and (iii) the Continuing Connected Transactions (including the relevant New Caps) are in the interests of the Company and the Shareholders as a whole.

LETTER FROM KBC BANK

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company. We have assumed that all information and facts supplied to us by the Company are true, complete and accurate in all material aspects and we have relied on the same. Also, we have relied on the representations made by the management of the Company that having made all due enquiries and careful decisions, and to the best of their information, knowledge and belief, there is no other fact or representation or the omission of which would make any statement contained in the Circular, including this letter, misleading. We have also assumed that all information, statements and representations made or referred to in the Circular, which have been provided to us by the Company, are true, complete and accurate in all material aspects at the time they were made and continue to be so at the date of despatch of the Circular.

We consider that we have reviewed sufficient information to enable us to reach an informed view 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 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 Company and its respective associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation in relation to the Continuing Connected Transactions (including the relevant New Caps), and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders in this regard, we have taken into account the following principal factors:

1. Background of the Group and BOC

Background of the Group

The Group, one of the three note issuing banks in Hong Kong and the clearing bank for RMB business in Hong Kong, is a leading commercial banking group in Hong Kong with more than 270 branches, 480 automatic teller machines in Hong Kong and more than 20 branches and sub-branches in the PRC as at 31 December 2009, offering a comprehensive range of financial products and services to individual and corporate customers as well as cross-border banking services to customers in both the PRC and Hong Kong.

In March 2006, the Group announced the 2006-2011 Strategic Plan (the "Strategic Plan") which serves as a 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. As disclosed in the Company's annual report for the year ended 31 December 2009, given the growing importance of the PRC's economies as the main driver for the Asia Pacific region and global economies in recent years and BOC's extensive network, it is the intention of the Group to grow its banking business in the PRC through closer collaboration with BOC with a view to increasing the Group's presence in the PRC, better serving its customers, maximizing cross-selling efforts and expanding its product range.

Background of BOC

BOC, established in 1912, is one of the largest state-owned commercial banks in the PRC and the state-designated specialist foreign exchange and foreign trade bank which is listed on both the Shanghai Stock Exchange and the main board of the Stock Exchange. As disclosed in the annual report of BOC for the year ended 31 December 2009, the core business of BOC is commercial banking, which primarily consists of corporate banking, personal banking and financial markets services with over 10,000 branches and outlets, 5,400 self-service outlets and 11,600 automated service machines which covers the PRC, Hong Kong and Macau. BOC also has an extensive international network, which comprises over 600 overseas branches in 29 overseas countries.

2. Particulars of the Services and Relationship Agreement

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 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 each of the Continuing Connected Transactions. In addition, the Company has also 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) will extend the term of the Continuing Connected Transactions for three additional years commencing from 1 January 2011.

3. The Investment Connected Transactions

(i) Securities transactions

BOCI Securities, a subsidiary of BOC, is one of the leading brokerage firms in Hong Kong which 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, the Group has been receiving rebates from BOCI Securities at a fixed proportion of the gross commission paid to BOCI Securities.

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 from the Company that the Group currently executes its securities-related transactions through four brokerage houses (including BOCI Securities) which were selected from the list of brokerage houses used by sister banks of the Group prior to its merger in 2001 based on scale, servicing capacity, system stability and reliability. The Company has confirmed that all brokerage houses (i.e. BOCI Securities and the other three independent brokerage houses) are entitled to receive the same percentage of the commission charged by the Group on its customers. 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 aforesaid setting.

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 entered into by the Group with BOCI Securities and those with independent third parties and did not note any material deviation between the terms offered by BOCI Securities and those offered by independent third parties. Accordingly, we concur with the Company's representation that the securities transactions entered into with BOCI Securities are on terms (including payment terms) no less favorable than those entered into with independent third parties.

Having considered the above, we are of the view that the Group's securities transactions with BOC are made in the ordinary and usual course of its business and on normal commercial terms and are fair and reasonable in 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) 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. 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. All fees and commissions payable by the fund houses (including BOCI-Prudential Manager) 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 understood 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. According to the Operation Manual, such assessment is principally based on quality of the fund houses in terms of, among others, reputation, size, track records and financial capability. We have also confirmed with the Group that the commission charged by the Group to BOCI Prudential Manager 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 Manager are subject to approval from the operational risk and compliance department.

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

the range of commissions charged by the Group to other independent investment managers for similar size of assets under management with payment terms offered to BOCI Prudential Manager being no more favourable than those offered to independent third parties.

Having considered the above, we are of the view that the fund distribution transactions are made on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned.

(iii) Insurance agency

BOCHK provides insurance agency services to BOC Insurance and BOC Life (the "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 5.3% and was ranked third in terms of overall gross premiums for general insurance in 2008 and BOC Life had a market share of 3.7% and was ranked seventh in terms of office premiums for long term insurance in 2008.

As advised by the Group, unlike fund products for which the terms are more standardised, 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 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 insurance coverage available 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 (including payment 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. Based on our review on the random samples of insurance agency transactions, we note that the terms (including payment terms) of the insurance agency transactions with BOC Insurance Group are no less favourable than those with independent insurance companies provided that they are on the same type of insurance coverage.

Having considered the above, we are of the view that the insurance agency transactions are made in the ordinary and usual course of business of the Group and on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned.

4. Inter-bank Connected Transactions

(i) Foreign exchange transactions

In the ordinary course of its business, the Group enters into foreign exchange transactions, including spot, forward and outright transactions, and exercised currency options with BOC and its associates as well as independent third parties, which are executed with reference to prevailing market rates.

The Group's revenue derived from foreign exchange transactions is stemmed from the spread between its foreign exchange trades with retail customers and wholesale transactions in the inter-bank market. Since trades with BOC represent a portion of those inter-bank transactions that are fungible with all others, 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 foreign exchange transactions are processed through a centralized system (except foreign currency banknote exchange transactions) and the executions of which will take place within a very short time frame. The design and operation of such centralized system 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 independent product control department, to ensure that they have been executed at the prevailing market rates.

We have reviewed random samples of foreign exchange transactions entered into between the Group and BOC and the respective comparable transactions between the Group and independent third parties. The comparable transactions were selected based on the underlying currencies and the dates of the transactions. After we compared the foreign exchange rates and payment terms offered to BOC with the rates and payment

terms offered to other independent third parties, we noted that they are no less favourable than those offered to independent third parties. 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.

Having considered the above, we are of the view that the foreign currency transactions are made in the ordinary and usual course of the Group's business and on normal commercial terms and are fair and reasonable in 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 operational risk 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 from the Company random samples of agreements for the trading of financial assets transactions including, but not limited to, syndication loan agreements and forfeiting agreements entered into by the Group. Based on our review of the agreements, we note that the terms (including payment terms) of the trading of financial assets transactions between the Group and BOC are no less favourable than transactions with independent financial institutions.

Having considered the above, we are of the view that the trading of financial assets transactions are made on normal commercial terms and are fair and reasonable in 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.

We understand from the Group that its product control division, which is an independent unit under the Group's finance department, is responsible for independent price verification, including off-market rate transactions. In addition, we have obtained from the Group random samples of the inter-bank capital market transactions with BOC and its associates and sample transactions with other independent third parties based on the same types of underlying securities. Based on our review, we have not noted any material deviation between the terms offered (including payment terms) 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 entered into with no less favourable terms (including payment terms) than those entered into with independent third parties with reference to the prevailing market rates.

Having considered the above, we are of the view that the inter-bank capital market transactions are made on normal commercial terms and are fair and reasonable in so far as the Independent Shareholders are concerned.

LETTER FROM KBC BANK

5. The New Caps

Set out below is a summary of the historical amounts of the Investment Connected Transactions and the Interbank Connected Transactions for the two years ended 31 December 2009 and the nine months ended 30 September 2010, as well as the annual cap amounts for the three years ended 31 December 2010:

	For the year ended 31 December						For the nine months ended 30 September 2010			For the year ended 31 December 2010*		
	Historical amount (HK\$' Million)	2008 Cap (HK\$' Million)	Utilization %	Historical amount (HK\$' Million)	2009 Cap (HK\$' Million)	Utilization %	Historical amount (HK\$' Million)	Cap (HK\$' Million)	Utilization %	Annualised amount* (HK\$' Million)	Cap (HK\$' Million)	Utilization %
Investment Connected Transactions												
Securities transactions	324	2,700	12.0%	441	4,000	11.0%	259	6,000	4.3%	345	6,000	5.8%
Fund distributions transactions	70	2,700	2.6%	47	4,000	1.2%	42	6,000	1.0%	56	6,000	1.0%
Insurance agency	343	2,700	12.7%	393	4,000	9.8%	340	6,000	5.7%	453	6,000	7.6%
	<u>737</u>			<u>881</u>			<u>641</u>			<u>854</u>		
Inter-bank Connected Transactions												
Foreign exchange transactions	200	2,700	7.4%	41	4,000	1.0%	10	6,000	0.2%	13	6,000	0.2%
Trading of financial assets	4,150	50,000	8.3%	12,177	75,000	16.2%	14,852	110,000	13.5%	19,803	110,000	18.0%
Inter-bank capital markets	1,709	50,000	3.4%	5,183	75,000	6.9%	8,976	110,000	8.2%	11,968	110,000	10.9%
	<u>6,059</u>			<u>17,401</u>			<u>23,838</u>			<u>31,784</u>		

* represented the annualized figures based on the historical transactions amount for the nine months ended 30 September 2010

As disclosed in the Circular, the annual caps for each of the years ended 31 December 2008 and 2009 in respect of the Continuing Connected Transactions have not been exceeded and based on the information available to the Group up to the Latest Practicable Date, the annual caps for the year ended 31 December 2010 has not been exceeded.

The Investment Connected Transactions involve activities which are regulated by various regulatory bodies in Hong Kong such as the HKMA, the Securities and Futures Commission and the Office of the Commissioner of Insurance. Based on the above table, we note that 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 had adversely affected the global economy in the beginning of 2009. Such significant increase was attributable to various economic policies implemented by governments in different countries, in particular, the "4 trillion stimulus package" promulgated by the PRC government in 2009, which has substantially offset or even turned the adverse impact of the financial turmoil and resulted in a recovery in the financial market in Hong Kong during 2009.

The Inter-bank Connected Transactions involve transactions amongst banks and financial institutions, which are regulated by monetary authorities in all regions. Based on the above table, we note that the amount for the trading of inter-bank capital market transactions and trading of financial assets transactions increased significantly by approximately 203.2% and 193.4%, respectively in 2009 as compared to 2008.

LETTER FROM KBC BANK

Set out below is a summary of the annual caps for each type of the Investment Connected Transactions and Inter-bank Connected Transactions:

Cap Amount (HK\$' Million)	For the year ended historical caps			For the year ending New Caps		
	2008	2009	2010	2011	2012	2013
Investment Connected Transactions						
Securities transactions	2,700	4,000	6,000	3,500	5,000	7,500
Fund distributions transactions	2,700	4,000	6,000	3,500	5,000	7,500
Insurance agency	2,700	4,000	6,000	3,500	5,000	7,500
Inter-bank Connected Transactions						
Foreign exchange transactions	2,700	4,000	6,000	3,500	5,000	7,500
Trading of financial assets	50,000	75,000	110,000	100,000	150,000	250,000
Inter-bank capital markets	50,000	75,000	110,000	100,000	150,000	250,000

For each of the Investment Connected Transactions and the foreign exchange transactions, we note that standard cap amounts of HK\$3,500 million, HK\$5,000 million and HK\$7,500 million are proposed for the year ending 31 December 2011, 2012 and 2013, respectively. As disclosed in the section headed "Letter from the Board" in the Circular, such standard annual cap for the year ending 31 December 2011 is primarily 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) for the year ended 31 December 2009 and after taking into account the average growth rate of the Group's revenue for the five years ended 31 December 2009 of approximately 10.6%. For each of the two years ending 31 December 2013, an annual growth rate of approximately 50% is applied on the annual cap for the year ending 31 December 2011 to determine the respective annual caps for each of the Investment Connected Transactions.

For each of the trading of financial assets and the inter-bank capital market transactions, we note that standard cap amounts of HK\$100,000 million, HK\$150,000 million and HK\$250,000 million are proposed for the year ending 31 December 2011, 2012 and 2013, respectively. As disclosed in the section headed "Letter from the Board" in the Circular, the standard annual cap for the year ended 31 December 2011 was primarily 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) as at 31 December 2009 and after taking into account the average growth rate of the Group's total asset of approximately 10%. For each of the two years ending 31 December 2013, an annual growth rate of approximately 50% is applied on the annual cap for the year ending 31 December 2011 to determine the respective annual caps for each of the Inter-bank Connected Transactions.

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

(i) *Nature of transactions*

The Investment Connected Transactions and the Inter-bank Connected Transactions are market-driven and unpredictable in nature. The volume and aggregate value of each of the Investment Connected Transactions and the Inter-bank Connected Transactions will vary from time to time and depends on a number of factors including any unexpected fluctuation in the financial markets and the economic conditions or new policies/measures promulgated by the relevant government or regulatory bodies which are neither within the control of the Group nor in the anticipation of the market. It is therefore difficult or even impracticable to set, and estimate, a maximum aggregate value for each type of the transactions. Under the circumstances, the historical transaction amounts of the Investment Connected Transactions and the Inter-bank Connected Transactions may not be a fair indication as to the expected value of each type of the transactions for the next three years. In addition, due to a substantial increase in transaction volume of certain Investment Connected Transactions and the Inter-bank Connected Transactions resulting from the booming of the financial market in 2007, the Group has revised the relevant annual cap amounts of the said transactions in 2007.

Securities transactions and fund distribution transactions are generally initiated by customers or mainly determined by customers' decisions according to their wealth management portfolio (e.g. stock, trust fund etc.) which are not subject to the Group's control or being anticipated by the Group. 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 available on the website of the Stock Exchange, we note that the total daily trading value of the Hong Kong stock market from 2 January 2008 to 30 September 2010 had been highly volatile and ranged from approximately HK\$30 billion to HK\$156 billion. For the insurance agency transactions, they relate primarily to the insurance market which the Group has no control over their volume and amounts.

The inter-bank capital market transactions involve dollar bills and exchange fund notes of which the Group is one of the market makers in Hong Kong. Accordingly, the Group has the obligation to quote prices upon requests by other banks (including BOC and its associates) and the decision of entering into trade lies with the counterparty. The inter-bank capital market is an open, competitive, and transparent market in which all of the Group's inter-bank capital market transactions with BOC and its associates are, and will, continue to be entered into on an arm's length basis. 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. Such counting scheme would increase the uncertainty of the estimations for the future transaction amounts. Furthermore, the face amount of a single inter-bank capital market transaction could be as much as several hundred million Hong Kong dollars, 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 trades 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. Given the unpredictable and opportunistic nature of these transactions, the historical transaction amounts will not be a good indicator to estimate future transaction amounts.

The trading of financial assets transactions of the Group are entered into for risk management of assets and to maintain adequate liquidity level at the consideration determined with reference to market quotations on comparable transactions which would require the relevant transactions to be entered into in a timely and efficient manner. If the relevant transaction amount exceeds its annual cap, the obligations to seek the Independent Shareholders' approval of the relevant annual cap would cause significant delay to the entering into of such transactions, and the Group, accordingly, will not be able to enter into such transactions for risk management purpose.

(ii) *Business expansion of the Group*

In addition to catering for the market-driven and unpredictable nature of the transactions, the New Caps have taken into account the business expansion of the Group, in particular the co-operation activities with BOC. As disclosed in the Company's annual report for the year ended 31 December 2009, the Group is committed to its long term vision to be "a top quality financial services group with an extensive base in Hong Kong, a solid presence in China and a strategic foothold in the region". In addition, it is part of the Group's development strategy to deepen its business collaboration with the BOC Group, particularly China's growing importance in the global economy, the launching of the Pilot RMB Trade Settlement Scheme in July 2009 and the elucidation of the supervisory principles and operational arrangements regarding RMB business by the HKMA in February 2010, all of which will imply the opening up of further opportunities of the Group's RMB business. Furthermore, in 2009, the Group (i) recorded growing market shares in corporate lending, loan syndication, residential mortgage, stock brokerage and RMB-related business and such growth is expected to continue in the forthcoming years; (ii) acted as the joint lead manager of the first RMB sovereign bond issued in Hong Kong which received overwhelming response from the market, laid a solid foundation for the Group to develop its RMB bond business in Hong Kong; and (iii) has been providing RMB trade settlement and finance services to countries in the Associations of Southeast Asian Nations with very positive responses. As such, it is expected that the Group will continue to strengthen its co-operation relationship with BOC, therefore the annual caps for each of the Continuing Connected Transactions should allow more flexibility for the Group to conduct more business transactions with BOC and its associates.

Having considered (i) the historical amounts of the Continuing Connected Transactions may not be a good indicator in determining the New Caps; (ii) the market-driven and unpredictable nature of the Continuing Connected Transactions (particularly, the Group had prior experience in revising the relevant cap amount for the securities transactions and the inter-bank capital market transactions due to unanticipated increase in transaction amounts) and greater flexibility should therefore be encountered in formulating the New Caps; (iii) the potential downside impact on the Group's financial performance and effective management of its financial risk due to the delay in entering into the Continuing Connected Transactions resulting from a further revision of the annual caps; and (iv) the mission of the Company to remain as one of the leading banks in Hong Kong and expand its market presence to both overseas and the PRC and the achievement of which may require the Group to work closer with the BOC Group in business areas mentioned above, we consider it reasonable for the Group to adopt the above-mentioned bases in determining the amount of the New Caps and are of the view that the New Caps are fair and reasonable which are in the interests of the Company and the Shareholders as a whole.

6. Compliance with the Listing Rules

Pursuant to Rules 14A.37 to 14A.40 of the Listing Rules, the Continuing Connected Transactions are subject to, among other things, certain annual review requirements, including the review by the independent non-executive Directors and the Company's auditors of the followings:

- (i) for each of the three years ending 31 December 2013, the relevant transaction amount of the Continuing Connected Transactions will not exceed the New Caps;
- (ii) the Continuing Connected Transactions will be entered into:
 - (a) in the ordinary and usual course of the business of the Group;
 - (b) either on normal commercial terms, or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available from independent third parties; and
 - (c) in accordance with the Services and Relationship Agreement on terms that are fair and reasonable and in the interest of the Shareholders as a whole;
- (iii) brief details of the Continuing Connected Transactions will be disclosed in the Company's next and each successive annual report, each accompanying with a statement of the opinion of the independent non-executive Directors on the matters referred to in paragraph (iv) below;
- (iv) the independent non-executive Directors will review annually the Continuing Connected Transactions and confirm in the Company's annual report for the year in question that such Continuing Connected Transactions under their review are and have been conducted in the manners as stated in the paragraph (ii) (a) to (c) above;
- (v) the Company's auditor will review annually the Continuing Connected Transactions and confirm in a letter to the Directors in accordance with Rule 14A.38 of the Listing Rule;
- (vi) during the term of the Services and Relationship Agreement, the Company will allow and will procure that each member of the Group and the relevant counter parties to the Continuing Connected Transactions to allow the auditors of the Company sufficient access to the relevant records of the Continuing Connected Transactions for the purpose of the Company's auditors' review of the Continuing Connected Transactions as referred to in paragraph (v) above. The Board will state in the annual report whether the auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules; and
- (vii) the Company will comply with the applicable provisions of the Listing Rules governing continuing connected transactions in the event that the amount for each type of transactions categorized under Investment Connected Transactions and Inter-bank Connected Transactions of the Group exceeds under the New Caps, if there is any material amendment to the terms of the Services and Relationship Agreement.

Based on our review on the annual reports of the Company for each of the two years ended 31 December 2009, we noted that the auditors of the Company have confirmed that the Continuing Connected Transactions under the Services and Relationship Agreement were (i) in accordance with the pricing policies of the Group; (ii) entered into in accordance with the terms of the Services and Relationship Agreement; and (iii) the relevant amounts had not exceeded the relevant caps approved for each of the two years ended 31 December 2009.

LETTER FROM KBC BANK

CONCLUSION AND RECOMMENDATION

Having considered the above principal factors, we are of the opinion 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 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 Caps.

Yours faithfully,

For and on behalf of

KBC Bank N.V. Hong Kong Branch

Kenneth Chan

Head of Corporate Finance, Greater China

Gaston Lam

Corporate Finance

APPENDIX GENERAL INFORMATION

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having, made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Xiao Gang, Mr. Li Lihui, Mr. Li Zaohang and Mr. Zhou Zaiqun, non-executive Directors of the Company, 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).

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 July 5, 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 July 25, 2002 with a valid exercise period of ten years.

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:

Name of Director	Date of grant	Exercise price (HK\$)	Exercisable period	Granted on July 5, 2002	Balances as at January 1, 2010	Number of share options			Balance as at Latest Practicable Date
						Exercised up to Latest Practicable Date	Surrendered up to Latest Practicable Date	Lapsed up to Latest Practicable Date	
LI Zaohang	July 5, 2002	8.50	July 25, 2003 to July 4, 2012	1,446,000	1,446,000	–	–	–	1,446,000
ZHOU Zaiqun	July 5, 2002	8.50	July 25, 2003 to July 4, 2012	1,446,000	1,084,500	–	–	–	1,084,500
ZHANG Yanling	July 5, 2002	8.50	July 25, 2003 to July 4, 2012	1,446,000	1,446,000	–	–	–	1,446,000
Total				4,338,000	3,976,500	–	–	–	3,976,500

Save as disclosed above, none of the Directors were granted any rights or options to acquire shares in, or debentures of, the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries as at the Latest Practicable Date.

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 the issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
HE Guangbei	100,000	–	–	–	100,000	0.001%
LI Zaohang	1,446,000 ¹	–	–	–	1,446,000	0.014%
ZHOU Zaiqun	1,084,500 ¹	–	–	–	1,084,500	0.010%
ZHANG Yanling	1,446,000 ¹	–	–	–	1,446,000	0.014%
Total	<u>4,076,500</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>4,076,500</u>	<u>0.039%</u>

Note:

- Such interests represented the respective Directors' interests in underlying shares in respect of the share options granted to him/her pursuant to the Pre-Listing Share Option Scheme, 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 Huijin	6,984,274,213 (66.06%)
BOC	6,984,274,213 (66.06%)
BOCHKG	6,984,175,056 (66.06%)
BOC (BVI)	6,984,175,056 (66.06%)

Notes

- Following the reorganization of BOC in August 2004, Central Huijin holds the controlling equity capital of BOC on behalf of the State. Accordingly, for the purpose of the SFO, Central Huijin 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 6,984,175,056 shares of the Company.
- 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 24,479 Shares and an interest in 72,000 Shares held under physically settled equity derivatives while BOCI Financial Products Limited had an interest in 2,678 Shares.

APPENDIX GENERAL INFORMATION

All the interests disclosed above represent long positions. Save as disclosed above, as at the Latest Practicable Date, BOCI Financial Products Limited had an interest in 143,522 Shares which represented short positions. BOC and Central Huijin are deemed to be interested in such amount of Shares for the purpose of the SFO. Save as disclosed, no other interests or short positions were recorded in the register maintained by the Company under section 336 of the SFO as at the Latest Practicable Date.

6. OTHER ARRANGEMENTS INVOLVING DIRECTORS

As at the Latest Practicable Date:

- (a) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which was 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 December 31, 2009 (the date to which the latest published audited consolidated financial statements of the Company were made up), (i) acquired or disposed of by; (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. EXPERTS

The following is the qualification of the expert who has given its opinions or advice, which are contained or referred to in this circular:

Name	Qualification
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 as defined under the SFO

KBC Bank has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, KBC Bank 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.

As at the Latest Practicable Date, KBC Bank does not have any direct or indirect interest in any assets which had been since December 31, 2009 (the date to which the latest published audited consolidated financial statements of the Company were made up), acquired, disposed of by, or leased to any member of the Group or were proposed to be acquired or disposed of by, or leased to any member of the Group.

9. MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse changes in the financial or trading position of the Company since December 31, 2009, being the date to which the latest published audited financial statements of the Group were made up.

10. MISCELLANEOUS

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

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 which is 14 days from the date of this circular:

- (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 12 of this circular;
- (c) the letter from KBC Bank, the text of which is set out on pages 13 to 22 of this circular;
- (d) the Services and Relationship Agreement and its amendment letter dated December 15, 2010; and
- (e) the annual report of the Company for each of the two financial years ended December 31, 2008 and December 31, 2009.