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VERGROWING



Our one-stop wealth management solutions help customers protect and grow their assets, while we increase our portion of their financial spending and market share

In January 2001, Standard & Poor's reaffirmed the Bank's Api credit rating, the highest rating for banks in Hong Kong.

an innovative workforce

It is our staff who have maintained our competitive edge and delivered our success. A series of comprehensive programmes was launched to attract, retain and motivate the very best people. These have encouraged staff to create value through innovation, strengthened staff quality and enhanced the one-team spirit.

The Bank's culture of innovation was reinforced with the redesignation of the Work Improvement

improve efficiency, promote team spirit and share best practice benchmarks. The Bank received a Good People Management Award from the Labour Department in January 2001.

good citizenship

We share our success with the communities we serve through philanthropic and sponsorship activities. Our commitment is focused primarily on education, community services and sports.

Six outstanding students in Hong Kong and mainland China were awarded scholarships to study abroad under the Hang Seng Bank Overseas Scholarship Scheme in 2000, taking the total number

growing with our customers

Scheme, set up in 1992, as Workforce Innovations for Service Excellence (WISE). An Innovation Champion was appointed to lead the Bank-wide drive to exceed, excel, both in the Bank's business and in personal development.

Around 1,000 ideas to improve work quality and capture business opportunities were received from staff in 2000. Operational savings and revenue generation from the implementation of ideas in 2000 reached HK\$22.3 million, taking the total since 1992 to HK\$63.5 million on an annual recurring basis. Staff and departments whose ideas were adopted were recognised and rewarded.

As part of our significant investments in our people, training initiatives enabled staff to develop multi-skills to meet new business challenges and advance along their career paths. The Managing for Value concept, innovation culture, and sales and service mindset were reinforced. An e-Education Plan, fostering e-knowledge, was well received. The average number of training days per staff member per year increased by 24% to 7.5 days, compared with 1999.

Internal communications were strengthened to

of students benefiting from the scheme to 18 since its inception in 1996.

Including scholarships offered to students in Hong Kong and the Mainland, the Bank has allocated nearly HK\$20 million to various scholarship schemes since 1996, benefiting about 270 students.

In 2000, the Bank sponsored the Hang Seng Olympics and Paralympics Athlete Incentive Awards Scheme for the second time. The Hang Seng Table Tennis Development Programme, launched in 1991 as the first long-term development programme for a single sport in Hong Kong, attracted 12,000 participants in 2000. Since 1991, the Bank has contributed more than HK\$11 million to the programme.

The Bank was the major sponsor of The Hong Kong Philharmonic Orchestra's Blossom With Music programme for the third year, bringing music education to 51,000 students from over 250 schools – an increase of 11% from 1999.

As part of its environmental initiatives, Bank staff planted 10,000 trees under the government's Corporate Afforestation Scheme for the second consecutive year.



future prospects

In 2001, operating conditions will remain difficult in the face of more intense competition, continued pressure on margins, rising costs and moderate loan demand.

Hang Seng will redouble efforts to exceed customer expectations, expand its franchise and achieve sustainable growth. We shall leverage on our strong brand and superior service to build more profitable long-term customer relationships. Segmentation will remain an important strategy in relationship management.

We shall also diversify revenue sources, maintain strict cost discipline and enhance our strong distribution network.

In personal wealth management, we shall add to our extensive range of products and services to grow our customer base and non-interest income through cross-selling. As the second-largest locally-incorporated bank in Hong Kong, we already serve more than one-third of its population and there is vast scope for cross-selling. In order to serve high net worth customers better, our Bank Smart Prestige service will be enhanced and renamed Prestige Banking in March 2001. It will combine high quality wealth management services with value-added benefits.

In commercial banking, we shall focus on building up our customer base of small and medium-sized enterprises, which make up the lion's share of Hong Kong businesses. Through our Mandatory Provident Fund services to this group, we have developed a large new customer base to cross-sell to.

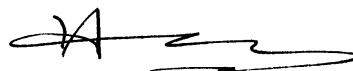
In order to mitigate the adverse effects of the final phase of interest rate deregulation, which will

take place in July, we are developing businesses that will increase our fee income, as described above. We are also rebalancing our loan mix and becoming more active in consumer financing, to help counter the squeeze in mortgage margins.

In the rapidly developing market, we aim to offer the best e-services to customers. e-Services will be widened extensively in 2001 as we continue to build up product coverage. An online business banking platform will be launched for commercial customers later in the year, in line with the strategy of growing our commercial business. Also to be introduced are online loans approval, bill presentment, a wide range of credit card services, treasury services and property services. We are preparing to launch wireless banking when the platform becomes mature.

Growth in the medium term will be underpinned by expansion in the Mainland. We shall expand our network of branches and offices in strategic cities, to take advantage of the vast opportunities that will come with China's World Trade Organization entry.

Under Managing for Value, we shall optimise capital and resource allocation to maximise business opportunities and deliver the high quality services our customers demand. By becoming the bank of choice for customers, we shall strengthen our market leadership and increase value creation for shareholders.



Vincent H C Cheng

Vice-Chairman and Chief Executive

Hong Kong, 26 February 2001