

CHAIRMAN'S STATEMENT

With the Hong Kong economy remaining sluggish and the banking environment challenging in the first half of 2002, Hang Seng Bank achieved an attributable profit of HK\$5,220 million, a reduction of 2.9% from the first half of 2001 but an increase of 10.1% compared with the second half of that year. The return on average shareholders' funds was 23.8%, compared with 24.4% for the same period in 2001.

In view of the Bank's sound business fundamentals, the Directors have declared a first interim dividend of HK\$2.10 per share, unchanged from 2001.

These results were achieved in a banking environment of intense competition, continuing pressure on margins, surplus liquidity and weak loan demand.

Hang Seng strengthened its focus on deepening customer relationships, prudent banking and higher margin, value-creating activities to increase shareholder value.

Between January 1999, when our Managing for Value strategy was implemented, and 30 June 2002, the Bank achieved a total return of 53.1% for shareholders. This was more than double the average return of 16.2% recorded by Hang Seng Index constituents over the same period. In absolute terms, total shareholder value increased by HK\$70.3 billion.

Economic profit – the difference between post-tax profit and the cost of invested capital – was HK\$2.9 billion in the first half of 2002.

Hang Seng's financial strengths and high standards were recognised when in June, it was named the Best Local Bank in Hong Kong by *FinanceAsia* magazine. The Bank was also ranked number 3 for the strongest commitment to enhancing shareholder value in Hong Kong by the same magazine in April.

Hang Seng continues to expand its large franchise through customer relationship enhancement and gaining a greater share of customers' financial spending. Our segmentation strategies, one-stop financial solutions and efficient distribution network offer us a strong advantage in the market, where we serve more than one-third of Hong Kong's population.

We are concentrating on the higher margin, value-creating activities of wealth management and commercial banking. In the first half of 2002, encouraging growth was recorded in our wealth management services, reflected in the significant rise of 27.6% in net fees and commissions.

Several developments mark a milestone in our mainland China business. Our Shanghai and Guangzhou branches began offering foreign currency services to mainland Chinese residents and enterprises in July, while the Shenzhen branch launched the services on 5 August 2002. The Shanghai branch will launch renminbi services for expatriates and foreign-invested enterprises shortly.

I am grateful to our hard-working staff for their contributions to the Bank's success. In the difficult operating environment, we announced our third salary freeze in four years for 2002.

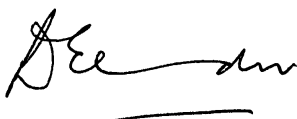
The total number of staff participating in the HSBC Group's two employee share plans increased by 604 to 6,940 in the first half of 2002.

Mr Peter Lee Ting Chang, JP, Chairman and Managing Director of Hysan Development Company Limited, joined the Board of Directors on 3 August. We extend our warm welcome to him.

In the second half of 2002, a hoped-for recovery in re-exports should lead to a modest rebound in the Hong Kong economy but the pace of recovery will probably be slow. Domestic demand and investment are likely to remain subdued in view of high unemployment and weak asset prices.

Hang Seng will focus on cost control and credit risk management while continuing to build more profitable long-term customer relationships and diversifying income sources to increase shareholder value. We shall also further expand our operations in mainland China to pave the way for future growth.

Our commitment to excellence will be demonstrated continuously by delivering maximum value to shareholders and premium service to customers.



David Eldon

Chairman

Hong Kong, 5 August 2002