

Chairman's Statement

Hang Seng Bank's results for 2002 have demonstrated resilience in a year marked by continuing deflation in Hong Kong and an economy constrained by sluggish consumption. Attributable profit fell by 1.5% to HK\$9,961 million, compared with 2001.

Reflecting the encouraging developments in wealth management services and our strict cost discipline, other operating income grew by 8.5% and operating expenses dropped by 6.6%. These positive effects were outweighed by a 7.3% decrease in net interest income.

Our return on average shareholders' funds was 22.9%, compared with 23.0% a year earlier.

In view of the Bank's strong balance sheet and sound business fundamentals, the Directors have declared a second interim dividend of HK\$2.80 per share, payable on 27 March 2003.

On the very special occasion of the Bank's 70th anniversary in 2003, the Directors have declared a special interim dividend of HK\$0.50 per share or HK\$956 million in total.

This will take the total distribution for 2002 to HK\$5.40 per share, compared with HK\$4.90 per share for 2001. Excluding the special dividend, the total dividend payment for the year represents 94% of the attributable profit for 2002.

Partnering for Success

Our goal is to be the partner of choice. We offer high standards of excellence in everything we do to help our stakeholders succeed, which in turn drives our growth.

We serve more than one-third of Hong Kong's population and are expanding in mainland China. As we celebrate our 70th anniversary as the 'ever-growing' bank, we undertake to increase value in every way we can for stakeholders, on whose strong support we rely.

We shall continue to enhance shareholder value; provide superior financial services that meet customer needs in wealth creation and asset protection; help staff achieve excellence, and share our gains with the communities we serve.

Our corporate tagline *Hang Seng Bank. Exceed. Excel.* signifies the stringent standards we have set ourselves in our efforts to help stakeholders realise their aspirations.

Managing for Value

Our adoption of the Managing for Value strategy in January 1999 has sharpened our focus on value-creating businesses that provide attractive returns to shareholders.

From the start of 1999 until the end of 2002, the Bank achieved a total return of 55.9% for shareholders, which was substantially more than the average return of 3.6% recorded by Hang Seng Index constituents. In absolute terms, total shareholder value increased by HK\$74.1 billion.

Economic profit – the difference between post-tax profit and the cost of invested capital – was HK\$5.3 billion in 2002. For consistency, a benchmark cost of capital of 15.0% was applied, which was higher than the Bank's actual cost of capital in the low interest rate environment.

Over the past 70 years, just as this married couple has grown closer together, Hang Seng has developed strong partnerships with its stakeholders.



We are expanding in mainland China to better serve customers and pave the way for our future growth.



The Year Ahead

The outlook for the economy in 2003 is clouded by the international political situation. Nonetheless, Hong Kong will remain export-led, looking to the United States and mainland China for its growth impetus. Domestic demand will remain subdued, with continuing deflation, high unemployment and weak asset prices.

The banking sector will continue to face the challenges of intense competition, weak loan demand and narrowing margins.

In order to be the preferred banking partner, Hang Seng will continue to deepen customer relationships and launch innovative products and services. We shall maintain our focus on wealth management services and small and medium-sized enterprises to increase non-interest income.

e-Banking services will be further expanded to increase customer convenience, following the successful launch in 2002 of Business e-Banking in Hong Kong and Personal e-Banking services in mainland China. We shall also step up our operations in the Mainland to meet the demands of our customers.

Acknowledgements

Our staff work as a team and make the real difference in our service delivery. We thank them for a year of excellent effort.

In the sluggish economic environment, we announced our fourth salary freeze in five years for 2003. The Board of Directors is grateful for staff understanding of the need to maintain business competitiveness.

The number of staff subscribing to the HSBC Holdings Savings-Related Share Option Plan was 4,105 at the year-end. The number of staff awarded options under the HSBC Holdings Group Share Option Plan had risen to 2,566.

I wish to express my sincere appreciation to my fellow Directors for their wise counsel. Dr H C Lee, who joined the Board in 1986 and chaired the Audit Committee from 1992 to 2000, resigned as a director in April 2002. We wish him well and thank him for his valuable contributions.

Mr Peter Lee Ting Chang, JP, joined the Board in August 2002 and we extend our warm welcome to him.

We thank our many stakeholders for their solid support and for sharing the Bank's firm confidence in its future. Through the years, Hang Seng has come to stand for financial soundness, trustworthiness, value creation and service excellence. We shall redouble our efforts to strengthen these attributes and go on delivering value to all our partners.



David Eldon

Chairman

Hong Kong, 3 March 2003