

CHAIRMAN'S STATEMENT

Despite the effects of the SARS outbreak and sluggish economy in the first half of 2003, Hang Seng Bank achieved a creditable growth in operating profit of 0.9% to HK\$5,617 million, compared with the same period in 2002. This reflected the resilience of the Bank's core business.

Attributable profit fell by 3.8% to HK\$5,022 million due to a higher rate of profits tax imposed in the last budget and a further decline in the value of properties held. However, it represented an increase of 6.9%, compared with the second half of 2002. The return on average shareholders' funds was 24.4%, compared with 24.1% in the first half of 2002.

In view of the Bank's strong balance sheet, the Directors have declared a first interim dividend of HK\$2.10 per share, unchanged from 2002. Acknowledging the increasing importance of dividend flows to our shareholders, the Board has decided to move to a programme of quarterly dividends, starting in 2004.

The Bank has achieved a total return of 61.2% for shareholders from the start of 1999 until 30 June 2003 under the Managing for Value strategy. This was substantially more than the average return of 9.4% recorded by Hang Seng Index constituents over the same period. In absolute terms, total shareholder value increased by HK\$81.1 billion.

Economic profit – the difference between post-tax profit and the cost of invested capital – was HK\$2,802 million in the first half of 2003. A benchmark cost of capital of 15.0% has been applied for consistency since 1999. The true cost of capital under the prevailing low interest rate environment, however, was less.

Hang Seng launched a HK\$75 million package of measures to provide financial relief to individuals and businesses affected by SARS, and to promote local consumption.

The Hong Kong economy will remain difficult in the second half of 2003. Growth in major export markets continues to slacken while, domestically, demand remains sluggish, unemployment high and asset prices weak. The banking sector will continue to face the challenges of subdued loan demand and narrowing margins.

Hang Seng will continue to build on its financial strength, clear customer focus and operating efficiency to create value for shareholders and customers.

We shall expand our large franchise by deepening customer relationships and gaining a larger share of customers' financial spending. Our focus on the higher margin businesses of wealth management and small and medium-sized enterprises will be strengthened.

In mainland China, we shall continue to expand. The recently signed Closer Economic Partnership Arrangement between Hong Kong and the Mainland will speed up economic convergence. We shall strengthen support to commercial customers, in particular those in the Pearl River Delta.

I am grateful to our hard-working staff for their contribution to the Bank's success. In the difficult operating environment, the Bank announced its fourth salary freeze in five years for 2003. However, a performance-based variable bonus was paid in March.

Mr Simon Penney resigned as a Director of the Bank effective from 23 April following his new appointment at HSBC North America. We thank him for his valuable contribution. Mr Simon Glass, Chief Financial Officer of The Hongkong and Shanghai Banking Corporation Limited, joined the Board on 22 May and we extend our warm welcome to him.

On 3 March, the Bank celebrated its 70th anniversary. I wish to take this opportunity to thank all those who have helped make the Bank the success it is today.

Hang Seng's high standards were recognised when it was named the Best Domestic Commercial Bank by The Asset and Asiamoney magazines in January and May respectively.

As a premier financial services provider, we are not complacent. We shall redouble our efforts to satisfy customers as we move forward.



David Eldon

Chairman

Hong Kong, 4 August 2003