

Chairman's Statement

I am pleased to report that from 1 January 1999 until 31 December 2003, Hang Seng exceeded its Managing for Value target of doubling shareholder value. A total return of 106.3% was achieved for shareholders, as measured by share price appreciation and reinvested dividends.

This was substantially higher than the average return of 46.2% recorded by Hang Seng Index constituents over the same period.

In absolute terms, our total shareholder value increased by HK\$140.7 billion in the five-year period.

2003 was also a year when we made substantial progress in our target of becoming a major foreign bank in mainland China. In a milestone development, we signed an agreement in December to acquire, subject to regulatory approval, 15.98% of Industrial Bank Co Ltd's enlarged capital for a consideration of RMB1,726 million in cash.

With this transaction, Hang Seng will be the largest foreign investor in a Mainland bank both in terms of invested capital and percentage of shareholding. Hang Seng will also be the first foreign bank to acquire more than 15% of a Mainland bank.

Our strategic partnership with Industrial Bank, which has a nationwide network of over 240 outlets, will significantly increase opportunities to build our business in the Mainland.

On 3 March 2003, Hang Seng celebrated its 70th anniversary. The anniversary tagline – 70 Years of Excellence – highlights the Bank's commitment to exceed the expectations of its stakeholders and excel in its operations.

I take this opportunity to thank shareholders, customers, colleagues and all those who have helped make the Bank the success it is today. Their solid support and firm confidence in Hang Seng have allowed the Bank to grow from strength to strength.

Results Overview

Hang Seng remained resilient in a year affected by SARS. Attributable profit for 2003, at HK\$9,539 million, was 3.8% lower than the previous year. However, if the increase in the profits tax rate for the year and a large release in general provisions in 2002 were excluded, attributable profit would increase by 0.7%.

Earnings per share of HK\$4.99 were 3.9% lower. Our return on average shareholders' funds in 2003 was a record 23.4%, compared with 23.1% in the previous year.

In view of the Bank's strong balance sheet and sound business fundamentals, the Directors have declared a third interim dividend of HK\$1.80 per share, payable on 25 March 2004. This follows the move to a programme of quarterly dividends from 2004, in recognition of the increasing importance of dividend flows to our shareholders.

The third interim dividend will take the total distribution for 2003 to HK\$4.90 per share, compared with HK\$5.40 per share for 2002. The 2002 dividend distribution included a special dividend of HK\$0.50 per share on the occasion of the Bank's 70th anniversary.

The total dividends for 2003 represent 98% of the attributable profit for the year.

Our thanks go to...

our shareholders for whom we are creating superior value in return for their trust in us.

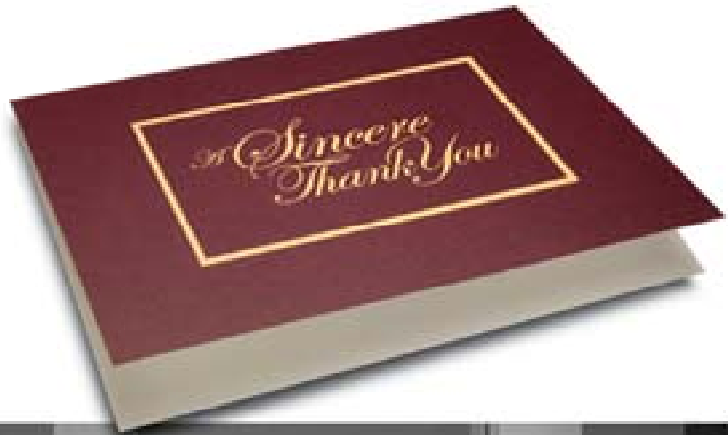
The total shareholder return in the five years to 2003 was 106.3%, or HK\$140.7 billion.



Our thanks go to...

our dedicated and professional staff

*whose service excellence helps us meet rising
customer expectations and delivers our success.*



Future Outlook

Given the improvement in sentiment and external demand, the economic recovery in Hong Kong is expected to accelerate in 2004. However, structural problems such as the fiscal deficit and unemployment still need to be resolved for the economy to achieve sustained growth in future.

Hang Seng is cautiously optimistic about prospects for 2004. Although the economy is improving and the government is facilitating the economic convergence of Hong Kong and mainland China, operating conditions will remain difficult. The banking sector is facing the challenges of rising customer expectations, subdued credit and depressed margins.

We shall continue to enhance shareholder value, step up efforts to help our customers realise their wealth management aspirations, create an environment where staff can thrive and share our gains with the communities we serve.

We serve more than one-third of Hong Kong's population. As their preferred partner, Hang Seng will continue to deepen relationships with them and launch innovative products and services.

To help customers capture business opportunities arising from the Mainland/Hong Kong Closer Economic Partnership Arrangement (CEPA), we are expanding services in the rapidly growing Pearl River Delta and economically vibrant Yangtze River Delta.

Our staff are the source of our strength and we thank them for their commitment and dedication in a year full of challenges.

Compensation strategies allow staff who perform strongly to be recognised. In March, a performance-based variable bonus was paid. During the year, awards were also made to staff under the relevant HSBC Group share plans. In addition, eligible employees subscribed to the HSBC Holdings savings-related share option plan.

I wish to express my sincere appreciation to my fellow Directors for their wise counsel. Mr Simon Penney resigned as a Director with effect 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.

As a financially-strong, forward-looking bank focused on Hong Kong and mainland China, Hang Seng has developed a trusted brand. We shall continue to strive for high standards of excellence in everything we do to create value for our stakeholders, sustain profitability and enhance our market position.

In the next five years from 2004 to 2008, the Bank will be guided by our new strategy to achieve strong competitive growth in earnings per share and operating efficiency in terms of the cost:income ratio.



David Eldon

Chairman

Hong Kong, 1 March 2004