

Hang Seng's strong focus on customer service, operational efficiency and prudent management allowed it to create value consistently in 2003.

As more customers turned to our broad range of personal financial services products, non-interest income rose to more than one-third of total operating income for the first time.

We increased efforts to provide one-stop solutions in our commercial banking business. We serve more than one-third of Hong Kong's small and medium-sized enterprises (SMEs), the cornerstone of the local economy. Lending to this group increased by 33.7% during the year.

Our market share rose in deposits, advances to customers, trade finance and residential mortgages.

Total assets rose by 6.0% to a record HK\$503.0 billion. Total funds under management grew by 42.5% to HK\$57.9 billion at the year-end.

In mainland China, we made strong inroads in expanding our network and capabilities in the rapidly growing Pearl River Delta and economically vibrant Yangtze River Delta. The announced deal to acquire 15.98% of Industrial Bank Co Ltd's enlarged capital is part of our plan to grow through partnerships as well as organically in the Mainland.

In recognition of its management quality, Hang Seng was named the Best Domestic Commercial Bank by *Asiamoney* and *The Asset* magazines.

Financial Highlights

The banking sector continued to face the challenges of rising customer expectations, subdued credit and depressed margins in 2003.

Against this backdrop, operating profit before provisions rose by 2.0% to HK\$11,475 million, compared with 2002.

Other operating income grew by 21.4% to HK\$5,198 million and contributed a record 33.8% of total operating income, compared with 28.4% in 2002. Income from wealth management, namely investment and insurance services, grew strongly by 38.7% to HK\$2,540 million, representing 48.9% of total other operating income.

Net interest income decreased by 5.8% to HK\$10,179 million in the prevailing low interest rate environment.

Operating expenses increased by 1.8%, mainly for expansion in the Mainland branch network and the marketing of new products. Faster growth in revenue and strict cost control saw the cost:income ratio maintained at 25.4%, among the lowest in the banking world. Reflecting our cost efficiency, attributable profit per employee was HK\$1.31 million.

The net charge for bad and doubtful debts amounted to HK\$792 million, an increase of 38.7%. This was attributable to the release of HK\$330 million in general provisions at the end of 2002 to recognise the reduction in estimated latent losses in our loan portfolio. Specific

Our thanks go to...

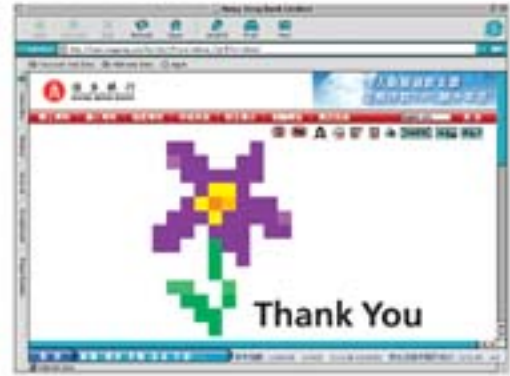
our loyal personal customers, many of whom have banked with us for several decades.

To help them achieve their wealth management aspirations, we offer a wide range of value-added products.



Our thanks go to...

a new generation of customers who have come online. Our secure and convenient e-Banking solutions have allowed us to connect with 337,000 personal customers and 13,000 businesses.



provisions decreased by 11.4% to HK\$798 million, mainly reflecting the reduction in new and additional provisions.

Customer deposits increased by 6.3% to HK\$439.9 billion. Advances to customers (after deduction of interest in suspense and provisions) grew by 2.2% to HK\$229.5 billion, driven mainly by lending to the industrial, commercial and financial sectors.

Advances under the suspended Government Home Ownership Scheme and other government home purchasing schemes decreased by 13.2%. Excluding such advances, total lending to individuals rose by 0.8%. Residential mortgages increased by 1.7% following the pick-up in property market activities in the second half of the year.

The Bank's trade finance rose by 16.1%.

Business Operations

We are leveraging on our large customer franchise and premium service, with the focus on meeting total customer needs through customised and value-added solutions.

Personal financial services remained the major profit contributor, providing 50.6% of the HK\$11,137 million profit before tax. This line of business recorded growth of 1.4% in pre-tax profit.

Our personal customer relationship management is built on market segmentation, with services linked to customer life stages and life styles.

Our integrated accounts have become a major platform for service delivery. Leisure Class was launched in June to grow the customer segment of retirees and those who are planning to retire, offering comprehensive wealth

management services and a host of leisure activities and benefits.

Investment services and insurance income grew by 29.8% and 109.4% respectively in this line of business.

We widened our range of personal financial services products. The Hang Seng H-Share Index ETF, the first exchange-traded fund tracking the Hang Seng China Enterprises Index, was listed on the Stock Exchange of Hong Kong in December.

The Bank is a leading fund distributor in the retail investor market. A total of 40 investment funds were launched in 2003, taking the total number of funds in the Hang Seng Investment Series to 90. This included 69 capital guaranteed funds – the largest group of such funds in Hong Kong. More than 400 funds from leading fund management companies are also offered to customers.

The securities trading volume increased by 77%, benefiting from the buoyant stock market in the second half of the year.

In the aftermath of SARS, Hong Kong people have become more aware of the need for insurance. Our new insurance products included the Hang Seng Evergreen Medical Protection Plan, launched in January 2004, which is the territory's first such plan for retirees and those who are planning to retire.

Hang Seng Life ranked fifth in the market for new life insurance business in 2003, one notch up from the previous year, commanding a 7.7% market share in terms of total new regular business.

Cardholder spending rose by 2.8% in 2003. The Bank's annualised charge-off ratio for its credit card business fell to 7.7%, compared with 10.02% for institutions surveyed by the Hong Kong Monetary Authority.

Last month, we introduced renminbi (RMB) services to meet rising demand from both visitors and outgoing travellers to the Mainland.

Personalised banking services are being offered to prospective investor immigrants under the government's Capital Investment Entrant Scheme, which was launched in 2003.

We enhanced the use of the internet as both a relationship and transaction platform, improving customer service and lowering transaction costs in the process. More than 337,000 users were registered for our Personal e-Banking services at the end of 2003, up by 33.6% from a year earlier.

The e-Fund Supermarket was launched to provide customers with comprehensive one-stop online investment fund services.

The number of internet transactions represented 23.1% of total transactions and online share trading 52.9% of total securities transactions in December.

Commercial banking contributed 10.6% of the Bank's profit before tax and its pre-tax profit was 6.0% higher in 2003. It recorded growth of 19.1% in customer advances.

Commercial banking, which manages middle market and smaller corporate relationships, benefited from the improvement in external trade.

We opened our first branch in Macau in December to serve the trade finance needs of customers with business operations there.

Our SME customer base increased as we targeted growth industries and business associations. More than 100 business account managers in our 11 Business Banking Centres promote the Bank's services to this group.

The Integrated Business Solutions Account was launched, offering SMEs greater convenience in the form of one-stop financial services.

The number of customers registered for Business e-Banking grew to some 13,000 at the year-end.

Corporate and institutional banking expanded its loan book by 5.3% despite sluggish loan demand and contributed 6.9% of profit before tax.

It recorded a decline of 18.1% in pre-tax profit, as its operating result was affected by the compression in corporate lending spreads and a reduction in credit facilities income.

Treasury recorded encouraging growth of 14.6% in profit before tax. It provided 20.4% of pre-tax profit.

Its other operating income rose by 45.4%, mainly a result of foreign exchange and customer-based income following the launch of new financial market products.

More funds were redeployed from interbank placings to capital market investments for enhancement of interest yield. The fixed rate debt securities portfolio continued to benefit under the low interest rate environment.

Our thanks go to...

our commercial banking customers

who serve as an ongoing demonstration that dreams, no matter how small, can grow. We are proud to partner them in their business expansion.



Growing in the Mainland

We are committed to expansion and development in the Mainland. The announced deal to acquire 15.98% of Industrial Bank Co Ltd's enlarged capital will complement our own network.

The agreement provides for joint ventures with Industrial Bank in the development of credit card and unsecured personal loan businesses as and when the relevant regulations permit.

We are expanding our capabilities to help customers capture new business opportunities arising from CEPA.

The Bank's network in the Mainland increased to five branches, a sub-branch and two representative offices, spanning seven cities.

As part of our growth in the Yangtze River Delta, we opened our fifth Mainland branch in Nanjing and a sub-branch in Puxi, Shanghai. An application was lodged to upgrade our Beijing representative office to a branch.

We are providing integrated cross-boundary services to deepen relationships with commercial customers and strengthening ties with domestic companies.



Our thanks go to...

our family of customers who have placed their trust in us through four generations. We meet all their evolving financial needs from children's accounts to retirement services.



In 2003, the loan portfolios of our Mainland branches grew by 76.7% to HK\$3.8 billion.

Our Guangzhou and Shenzhen branches became the second and third branches respectively to offer RMB services to foreign passport holders; citizens of Hong Kong, the Macau SAR and Taiwan; and foreign-invested enterprises.

Our Shanghai and Guangzhou branches have been granted approval to provide RMB services to domestic companies.

The service features of Personal e-Banking were enriched and Business e-Banking was launched during the year.

Hang Seng Investment Management Limited opened a representative office in Shenzhen in March.

Future Prospects

In order to build more profitable customer relationships, we shall strengthen segmentation, provide more customised and value-added solutions, and increase cross-selling in our businesses.

We shall increase efforts to widen our customer base and migrate customers upwards from one segment to another at appropriate stages.

Our leadership as a wealth management service provider will be enhanced with the launch of more sophisticated products to grow non-interest income.

Efforts to reach the high net worth segment will be stepped up in our private banking business, where we aim to

become a leading domestic player in terms of assets under management, client base and profitability.

We shall further increase our commercial banking capabilities in Hong Kong, the Mainland and Macau. Relationship management will be strengthened with customer segmentation by size, potential and share of business.

We shall leverage on our premium brand in Hong Kong to strengthen our market position in mainland China. Our network of operations will be further increased in the years ahead, with more branches and sub-branches in major cities.

In addition to building prudent lending relationships with corporates, personal financial services will be expanded in the Mainland.

Through it all, developing our staff and their talents will be crucial. We owe our premium customer service and success to our staff and will continue to attract, develop and motivate them by providing an environment in which they can thrive.

As a strong bank with sound business strategies, we shall accelerate revenue growth, further develop our strong brand, improve productivity and maintain our financial prudence.



Vincent Cheng

Vice-Chairman and Chief Executive

Hong Kong, 1 March 2004