

CHAIRMAN'S STATEMENT

Hang Seng's performance improved in the first half of 2004, supported by Hong Kong's recovery from the economic low point of early 2003. Attributable profit grew by 24.4%, underpinned by growth in other operating income and the release in provisions for bad and doubtful debts.

Although interest margins remained depressed, an increase of 25.7% in other operating income more than offset the fall in net interest income. Operating profit before provisions grew by 0.4%.

Earnings per share went up to HK\$3.27, which was 24.3% higher than the first half of 2003. The return on average shareholders' funds was a record 30.9%, compared with 24.4% in the first half of 2003 and 22.5% in the second half of 2003.

Starting this year, a programme of quarterly dividends has been instituted for our shareholders. A second interim dividend of HK\$1.10 per share has been declared. This, together with the first interim dividend of HK\$1.10 per share, paid on 8 June 2004, brings the total distribution for the first half of 2004 to HK\$2.20 per share, a slight increase over the HK\$2.10 per share for the first half of 2003.

Economic profit — the difference between profit after tax and the cost of invested capital — was HK\$4,262 million, an increase of 52.1% over the same period last year.

Having achieved a total return of 106.3% for shareholders under our Managing for Value strategy from 1 January 1999 to 31 December 2003, for the next five years Hang Seng will be guided by its new strategy of maintaining strong competitive growth in earnings per share and operating efficiency.

Under this strategy, we will focus on diversifying income, enhancing our wealth management services, growing our consumer lending franchise, increasing our trade finance business and offering more customised solutions for Small and Medium-Sized Enterprises and commercial customers.

We will continue to expand our business on the Mainland, especially in the Pan-Pearl River and Yangtze River deltas, to help customers capture business opportunities arising from the closer economic links between Hong Kong and these economically vibrant areas.

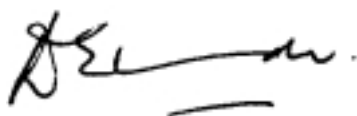
During the first half of 2004, a milestone in our relations with the Mainland was reached through the acquisition of a 15.98% interest in Industrial Bank Co Ltd. This strategic move opens the door for cooperation with a major Mainland joint-stock commercial bank and complements Hang Seng' Mainland network and business expansion.

I would like to take this opportunity to thank our staff for their dedication and hard work. The Board of Directors approved the distribution of a variable bonus with reference to the Bank's 2003 business results and the contribution of staff members to these results during a very challenging 2003. The bonus was paid out on 31 March 2004.

On behalf of the Board of Directors, I would also like to thank Dr Lee Quo-Wei, Honorary Chairman, and Dr Ho Tim, Director, who retired from the Board on 22 April 2004. Dr Lee and Dr Ho served the Bank with distinction from 1946 and 1933 respectively. Their immensely valuable contributions and wise counsel over the years have been integral to the growth and success of the Bank.

I would like to extend a warm welcome to Dr Marvin K T Cheung, who was appointed a non-executive Director effective 25 May 2004. Dr Cheung is the former Chairman and Chief Executive Officer of KPMG Hong Kong.

Buoyant exports and the revival in consumer spending should continue to support Hong Kong's economy during the rest of the year. The pace of recovery will, however, be dependent to a large extent on the macro-economic realignment initiatives in mainland China and the strength of the recovery in the United States. Against this backdrop, Hang Seng will continue to deliver growth through service excellence, product diversification and cost efficiency.



David Eldon

Chairman

Hong Kong, 2 August 2004