

CHAIRMAN'S STATEMENT



In this annual report – my last as Chairman of Hang Seng Bank – I am pleased to inform you that our Bank registered record results in 2004.

Attributable profit grew by 19.5% to a record HK\$11,395 million. This was supported by a rise in other operating income of 22.4%, as well as

a release of provisions for bad and doubtful debts. Even if we exclude the impact of the release in general provisions and the related deferred taxation, attributable profit increased by HK\$1,191 million, or 12.5%.

Earnings per share for the year increased to HK\$5.96, up 19.4% on 2003. We achieved a record return on average shareholders' funds of 27.6%, compared with 23.4% the year before.

Hang Seng's encouraging performance was underpinned by Hong Kong's robust economic recovery, which was driven by an increase in re-export trade, the rebounding property market and a surge in inbound tourist numbers. Other contributing factors included our solid asset base, strict financial discipline, a customer-focused service culture, high operating efficiency and more innovative products that met customer needs.

The year under review was the first under the Bank's new programme of quarterly dividends for our shareholders. Accordingly, three dividends of HK\$1.10 per share each were declared together with a fourth dividend of HK\$1.90 per share, bringing the total for the year to HK\$5.20 per share. This was a 6% increase over the HK\$4.90 per share in 2003.

GROWTH IN THE MAINLAND

Our total investment in the Mainland, including our own branch network, currently stands at about RMB3 billion. We made significant progress in our development with the completion in May of our acquisition of a 15.98% interest in Industrial Bank Co Ltd. for a consideration of RMB1,726 million. With representation on both Industrial Bank's Board and Executive Committee, we look forward to further co-operation with Industrial Bank.

We are well positioned to capitalise on growth opportunities arising from the liberalisation of the Mainland financial markets.

We will also examine other opportunities for strategic and organic growth, such as investments in non-bank financial institutions and the addition of more service outlets in the Mainland.

ACKNOWLEDGMENTS

After serving as Hang Seng's Chairman since 1998, I will be retiring at the conclusion of the Annual General meeting on 21 April 2005. Mr Michael Smith will take over as Chairman on 22 April 2005 while remaining as the President and Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited.

Mr Vincent Cheng will step down as Vice-Chairman and Chief Executive of Hang Seng on 25 May 2005 to succeed me as the Chairman of The Hongkong and Shanghai Banking Corporation Limited. Mr Cheng's position at Hang Seng will be taken over by Mr Raymond Or on 25 May 2005.

Mr Roger Luk ceased to be Managing Director and Deputy Chief Executive of Hang Seng on 6 December and will retire from the Bank on 1 May 2005. On behalf of the Board, I would like to thank him for his 30 years of service and contribution to the Bank.

Mr Joseph Poon became Executive Director and Deputy Chief Executive of Hang Seng on 7 December 2004. Mr Poon was previously Senior Executive, Commercial Banking, of The Hongkong and Shanghai Banking Corporation Limited.

Mr W K Mok, former Managing Director and General Manager, and Head of Wealth Management of Hang Seng, was appointed Managing Director and Chief Operating Officer with effect from 1 January 2005.

Mr William Leung, former Deputy General Manager and Deputy Head of Commercial Banking of Hang Seng, was promoted to General Manager and Head of Wealth Management on 1 January 2005.

I would like to take this opportunity to pay a special tribute to Dr Ho Tim, who passed away on 6 November 2004. Dr Ho, who joined Hang Seng in 1933, was one of the Bank's Honorary Senior Advisors and a man whose dedication to the Bank was matched only by his vision and generosity of spirit. A pioneer of Hong Kong banking, he will be missed by all who knew and worked with him.

It has been an honour and a pleasure for me to serve as the Chairman of Hang Seng over the past seven years, and I would like to thank the Board and the management and staff of the Bank for their many invaluable contributions and unfailing support. I would also like to wish Mr Smith and Mr Or every success in their new roles.

On behalf of the Directors, I would like to express our appreciation to all staff for their dedication and hard work. After a three-year salary freeze, the Board approved a budget of 2.75% of total payroll for a general salary increase to staff, which took effect in January 2005.

THE YEAR AHEAD

The economy in Hong Kong improved significantly as pent-up demand fuelled a sharp revival in spending.

The year ahead, however, will pose a number of challenges, including slower growth in the United States and Japan, continued macroeconomic controls in the Mainland and rising US interest rates. For the banking industry, the major challenge will be to secure growth in the face of sustained margin pressure and intense competition.

In Hong Kong the economy is expected to grow steadily in 2005, underpinned by our closer economic relationship with the Mainland. With Hang Seng's strong asset quality, sound financial position and growing wealth management capabilities, we will continue to deliver value to our shareholders and customers.



David Eldon
Chairman
Hong Kong, 28 February 2005