

**FROM INSURANCE PLANS WITH SAVINGS FEATURES
TO EQUITY LINKED INVESTMENTS AND THE
LARGEST SELECTION OF CAPITAL GUARANTEED
FUNDS IN HONG KONG...**





WEALTH MANAGEMENT

**OUR GROWING ARRAY OF WEALTH MANAGEMENT
PRODUCTS GIVES OUR CUSTOMERS MORE
OPTIONS FOR MANAGING THEIR MONEY.**

BUSINESS OPERATIONS

BUSINESS IN HONG KONG

Hang Seng's premium customer service and operating efficiency enabled the Bank to achieve encouraging results in 2004, despite intensifying market competition.

Advances to customers recorded a strong growth of 9.8% from HK\$229.5 billion to HK\$251.9 billion, mainly in advances to the industrial and commercial sectors and trade finance. This compared with the Hong Kong banking industry average of 6.4% in 2004.

Despite the growth in lending, loan margins were further squeezed due to heavy competition and ample liquidity. The low Hong Kong dollar interest rate environment that persisted during the year also resulted in a substantial reduction in deposit spread, which affected net interest margin significantly. The low interest rates further led to a shift of deposits to other investment products.

Customer deposits rose 3.6% to HK\$447.3 billion. Together with certificates of deposit and other debt securities in issue, total customer deposits increased by 5.3% to HK\$463.4 billion. Growth was mainly recorded in savings and current accounts, while time deposits fell in the low interest rate environment.

Certificates of deposit and other debt securities in issue rose by HK\$8.2 billion, or 102.8%, to HK\$16.1 billion.

PERSONAL FINANCIAL SERVICES

Personal Financial Services accounted for 51.0% of Hang Seng's pre-tax profit in 2004 and continued to be the largest contributor to the Bank's profit. An increase of 21.2% in profit before tax was reported, underpinned by the strong rise of 28.8% in other operating income due to growth in the wealth management business.



(Left) The past and present of Hang Seng's more-than-70-year history are reflected in the two logos at the entrance of the headquarters' banking hall.

(Middle) Prestige Banking offers professional financial and investment services as well as lifestyle privileges to affluent customers.

(Right) The Bank launches its A Share Investment Services.

Investment Services

In the current low interest rate environment, the Bank broadened its range of investment products to meet different risk appetites. These included capital guaranteed funds, equity-linked instruments, structured deposits and certificates of deposit.

During the year, Hang Seng launched 29 new investment funds, taking the total number of funds in the Hang Seng Investment Series to 118. Of these, 96 were capital guaranteed funds – the largest group of such funds in Hong Kong.

New investment products offered during the year included a Hang Seng Index Exchange Traded Fund (ETF), allowing customers to invest in a portfolio of the HSI constituent stocks conveniently and cost effectively; Equity Linked Investment (ELI) products; and a Hong Kong Property Equity Fund.

After receiving a QFII securities investment business permit from the China Securities Regulatory Commission, Hang Seng launched the A Share Investment Services, which enables Hong Kong investors to trade A shares and convertible bonds listed on the Shenzhen Stock Exchange and Shanghai Stock Exchange. Five new capital guaranteed funds linked to a China A-share index were also offered.

Total funds under management grew by 55.4% to HK\$89.9 billion.

During the year, Hang Seng became the first bank in Hong Kong to offer an online warrant supermarket, which provides investors with up-to-date market information and technical analysis tools. The service was developed to help investors make informed decisions in trading warrants.

Another service – Advanced Switching for Investment Funds – allows same-day investment fund switching by providing customers with a bridging advance so they can capture market opportunities as they arise. Hang Seng was the first fund distributor in the market offering a service of this kind.

Private banking business continued to expand as we increased our resources to grow our customer base, product range and investment portfolio.

Insurance

Hang Seng has been strengthening its market leadership in Hong Kong in the provision of insurance products, particularly life insurance and medical insurance.

Taking advantage of the Bank's large customer base, Hang Seng maintained the growth momentum of the life insurance business during the year. Insurance commissions and underwriting profit grew by 15.6% to HK\$1,310 million from HK\$1,133 million, which was mainly attributable to strong growth in the life insurance business.

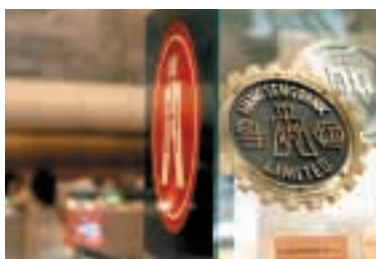
Annualised premiums grew by 43.5% and underwriting profits (including embedded value) by 22.3%. General insurance income, however, fell by 4.6% due to higher claims for certain types of insurance.

New insurance products included the Bank's Evergreen Medical Protection Plan, Hong Kong's first medical protection plan for those who are retired or about to retire, and the enhanced Hospital Cash Plan with coverage that includes double cash benefits for specific infectious diseases.

Also launched were the Life Long Reward Protection Plan, which combines lifetime guaranteed savings and protection with a short payment period, and the All Years Reward Life Insurance Plan – an all-in-one plan that helps customers reach their medium and short-term savings goals, while providing them with a yearly cash reward and double life protection.

Consumer Lending

In 2004 the Bank diversified its loan portfolio by expanding consumer lending, as the economy improved and consumer confidence returned. Excluding the fall of HK\$3.9 billion in mortgages under the suspended Government Home Ownership Scheme, there was a growth of 3.1% in consumer lending.



Credit card advances grew by 20.3%. The number of credit cards in issue rose by 18.7% to 1,153,000, and spending was up by 46.6% from the year before. Against a backdrop of falling bankruptcies and unemployment rates, credit card charge-off improved substantially. The annualised credit card charge-off ratio for 2004 fell to 3.21%, compared with the industry average of 4.73%.

Other lending to individuals, mainly overdraft, personal and tax loans, rose by 41.0%.

The Bank's mortgage portfolio yield fell further in the highly competitive mortgage market. The average yield on the residential mortgage portfolio, excluding GHOS mortgages and staff loans, fell to 202 basis points below BLR for 2004, before accounting for the effect of cash incentive payments. This compared with 177 basis points below BLR in 2003. Cash incentive payments on new mortgage loans of HK\$157 million were written off against interest income in 2004 compared with HK\$130 million in 2003.

With the turnaround in the local economy and the property market, there was a net release of mortgage provisions, reflecting the improvement in delinquency, higher recoveries from disposal of repossessed properties and substantial improvement in negative equity position.

During the year, Hang Seng launched a Customised Repayment Plan for residential mortgages, giving customers more flexibility in choosing the instalment amount and for arranging repayment. The Bank also entered into a new Delegated Underwriting Arrangement in April with the Hong Kong Mortgage Corporation. This Arrangement allows customers to enjoy a convenient one-stop approval service for mortgage loans with a loan ratio of up to 90%. Hang Seng was the first bank in Hong Kong to offer such a service.

In September 2004, Hang Seng launched a 95% "Top Up" Mortgage Plan for selected primary market mortgages. In January 2005, the Bank extended the combined age of the property and loan tenor requirement for mortgage loans from 40 years to a maximum of 60 years for quality residential estates. The Bank also extended its 95% "Top

Up" Mortgage Plan from primary to secondary market properties. The new mortgage plans provide more options to customers and greater flexibility for financing their homes.

COMMERCIAL BANKING

Commercial Banking, which reported a growth of 83.1% in profit before tax, contributed 16.1% of the Bank's pre-tax profit in 2004. Strong growth of 37.5% was recorded in customer advances and 25.2% in net interest income. Other operating income rose by 12.5%, mainly as the result of the growth in trade services. There were net releases in specific and general provisions of HK\$601 million.

Commercial Banking serves the middle market enterprise (MME) and small and medium size enterprise (SME) sectors in Hong Kong and the Mainland. In both sectors, progress was made in expanding the customer base and scope of services offered. Commercial Banking strengthened its SME business banking team and focused on high growth industries benefiting from the rebounding local economy. Business e-Banking and Integrated Business Solutions Accounts were also promoted to enhance service to smaller customers.

SME advances rose by 49.7% in trade finance and lending for the expansion of production capacity and distribution networks.

Trade finance and other lending to MME customers grew by 31.3%, as Commercial Banking took further advantage of its strong relationship management team and trade service capabilities to provide customers with a total financial services solution.

CORPORATE AND INSTITUTIONAL BANKING

In 2004 Corporate and Institutional Banking recorded growth of 6.0% in profit before tax, with an increase of 9.8% in net interest income, following a growth of 12.3% in customer advances. The operating results also benefited from a net release in provisions for bad and doubtful debts, as

non-performing loans decreased in the improved economic environment. The increase in corporate financing activities provided more opportunities for business, although lending margins remained under pressure.

In 2004 Corporate and Institutional Banking contributed 6.1% of the Bank's pre-tax profit.

Corporate and Institutional Banking was successful in expanding its loan book despite keen market competition in 2004. A total of 192 deals amounting to HK\$44,307 million was recorded, an increase of 35.5% in amount and a rise of 12.3% in deals.

TREASURY

Treasury reported growth of 5.5% in profit before tax and contributed 18.0% of the Bank's pre-tax profit. Net interest income reduced marginally by 1.1%, as higher yielding securities matured and were replaced at lower yields. Dealing profit rose by 33.1%, reflecting the improvement in proprietary trading, increase in corporate treasury services and the growth in structured investment products.

The main strategic focus of Treasury in terms of balance sheet management was to enhance the portfolio yield by redeploying more funds from interbank placement to capital market investments, while maintaining prudent credit and market risk.

Although balance sheet management contributed the major portion of Treasury's income, there was also strong growth in proprietary trading and customer driven business in 2004.

To increase non-interest income, Treasury launched more structured products, strengthened its sales and service capabilities, and extended its sales channels to e-Banking and branches.

Foreign exchange trading, which benefited from a volatile market and increased customer flows, showed strong performance in the year.

E-BANKING

Hang Seng provides a full range of online services to make banking more convenient for customers and to reduce operating costs.

In 2004 the Bank launched more e-Banking services, including e-Statements and e-IPOs, as well as online subscriptions for retail bonds, FX transactions and loan applications.

Hang Seng enhanced its lifestyle banking services in March with the launch of a dedicated lifestyle banking website. Through this service, customers can gain access to the latest information on wealth management services and promotional privileges as well as a wide array of value-added activities and benefits.

More than 430,000 users were registered for our personal e-Banking services at the end of December 2004, an increase of 27.6% from the last year end. The number of internet transactions represented 27.5% of total transactions in December, up from 23.1% a year ago. Counter transactions in 2004 dropped to 12.2% of all transactions, down from 13.3% a year earlier.

The number of Business e-Banking customers in 2004 grew to over 19,700 by year-end.

In 2005 the Bank will increase the scope of its online investment product offerings to include gold margin trading, ELI trading and fund switching.



A man in a dark suit stands on a balcony with a wooden handrail, looking out a large, multi-paned window at a city skyline across a body of water. The sky is overcast. The window frames are dark and create a grid pattern over the view.

THE MAINLAND MARKET

FROM ESTABLISHING A STRATEGIC PARTNERSHIP
WITH INDUSTRIAL BANK TO EXPANDING OUR
NETWORK AND SERVICES IN THE WORLD'S
POTENTIALLY LARGEST CONSUMER MARKET...

**OUR GROWING PRESENCE IN MAINLAND CHINA
ENABLES US TO GROW OUR CUSTOMER BASE
THERE AND GIVES US A FIRM FOUNDATION FOR
OUR FUTURE DEVELOPMENT.**



BUSINESS IN THE MAINLAND

As Hong Kong is a mature and highly competitive market, Hang Seng is looking to the Mainland for long-term expansion. The further liberalisation of the financial market will provide increasing opportunities for the Bank to capitalise on the rapidly expanding economy and enormous growth potential of the Mainland market.

OUR EXPANDING NETWORK

Hang Seng's network in the Mainland underwent further expansion during the year. A sub-branch in the Gubei district of Shanghai opened for business in September 2004, and the Bank's first sub-branch in Shenzhen began operating in January 2005.

The Bank is also planning to open a new branch in Beijing and a third sub-branch in Shanghai in the second half of 2005. Hang Seng's network in the Mainland will then increase to six branches (in Beijing, Shanghai, Guangzhou, Shenzhen, Fuzhou and Nanjing); four sub-branches (in Shanghai and Shenzhen); and one representative office (in Xiamen).

The Bank has also applied to open a representative office in Dongguan.

As at 31 December 2004, the total number of staff within the Mainland operation exceeded 300, an increase of nearly 60% from a year ago.



(Left) Together with its two sub-branches, the Shanghai branch offers a wide range of foreign currency banking services.

(Middle) Mr Chen Yingchun, Vice Mayor of Shenzhen, and Mr Vincent Cheng officiate at the opening of Hang Seng's first Shenzhen sub-branch.

(Right) Industrial Bank – Hang Seng's strategic partner in the Mainland – launches its first international dual currency credit card bearing the Hang Seng logo.

PERSONAL FINANCIAL SERVICES (PFS)

The Bank's PFS in the Mainland currently cover a wide range of products and services – such as deposits and Prestige Banking – targeted at affluent customers in the coastal cities.

The Bank also offers mortgage financing in the Mainland in RMB, and Hong Kong and US dollars.

To bring in new business, Hang Seng added staff to its direct sales teams and expanded its product offerings. Investment products such as capital protection investment deposits were launched in Shanghai in late December. MaxiInterest Investment Deposits were also offered at branches and sub-branches in Shanghai, Guangzhou and Shenzhen.

RENMINBI (RMB) SERVICES

In 2004 the Bank's Shanghai, Guangzhou and Shenzhen branches started offering RMB services to domestic companies. Since November, the Fuzhou branch has been offering RMB services to foreign passport holders and residents of Hong Kong, Macau and Taiwan, and foreign-invested enterprises.

In November Industrial Bank Co Ltd launched its first international dual currency credit card bearing the Hang Seng logo. The new card is targeted at the growing number of Mainland travellers to Hong Kong and Macau and allows them to enjoy preferential offers at retail outlets in Hong Kong.

In Hong Kong, the Bank launched the Hang Seng RMB Credit Card for frequent visitors to the Mainland, where it is accepted at over 400,000 merchant outlets displaying the China UnionPay (CUP) acceptance logo.

Also during the year, Hang Seng Bank began offering RMB services, including deposits, currency exchange and remittances, to its Hong Kong personal customers.

CAPTURING GROWTH

Hang Seng's Mainland branches were able to expand their loan books, trade business and personal financial services as a result of the increased number of outlets, marketing activities and co-operation with the Bank's business units in Hong Kong.

These branches were successful in attracting Hong Kong and Taiwan enterprises with manufacturing arms in the Mainland, particularly in the Pearl River and Yangtze River delta regions.

There was an 85% increase in PFS customers during the year, which led to strong growth in both loans and deposits. As at 31 December 2004, total loans grew by 95% over the same period last year; the corresponding growth in deposits was 84%.

