



OUR

VISION



**Michael Smith**  
Chairman



# CHARTING FUTURE GROWTH

“Our vision is to increase shareholder value by becoming the leading regional bank in Greater China.”



OUR  
VISION

## CHAIRMAN'S STATEMENT

Hang Seng's 2005 results reflect an increasingly competitive operating environment and rising interest rates which exerted significant pressure on Treasury investments and trading performance and affected the sale of investment funds. However, these downward influences on income were offset by improvements in deposit spreads earned and net free funds contribution, while the stronger property and employment markets helped to sustain borrower demand.

Our operating profit excluding loan impairment charges and other credit risk provisions declined 1.1 per cent to HK\$11,686 million.

Attributable profit was HK\$11,342 million, compared with HK\$11,364 million in 2004 which included a HK\$812 million release of general provisions. Our 2005 attributable profit benefited from a HK\$1.2 billion revaluation surplus on our investment properties. Earnings per share were HK\$5.93.

Our return on average shareholders' funds was 27.5 per cent.

### “ Hang Seng's 2005 results reflect an increasingly competitive operating environment and rising interest rates. ”

At 31 December 2005, our total and tier 1 capital ratios stood at 12.8 per cent and 10.4 per cent respectively, compared with 12 per cent and 10.8 per cent a year earlier.

The Directors have declared a fourth interim dividend of HK\$1.90 per share, bringing the total distribution for 2005 to HK\$5.20 per share, the same as in 2004.

At a customer group level, Personal Financial Services recorded an operating profit excluding loan impairment charges of HK\$7,436 million, an increase of 10.7 per cent. This reflects an 18 per cent rise in net interest income and a 17.9 per cent expansion of our insurance business, as well as growth in card advances, residential mortgages (excluding Government Home Ownership Scheme mortgages) and other consumer lending.

Increases in advances to customers and net interest income also helped Commercial Banking's operating profit excluding loan impairment charges to grow by 11.3 per cent to HK\$1,647 million. However, it was necessary to make several large loan impairment charges which brought pre-tax profit down by 49.2 per cent.

Market liquidity together with limited corporate demand for loans put pressure on corporate lending margins in 2005. This had an impact on Corporate and Institutional Banking's operating profit excluding loan impairment charges, which was down 19.1 per cent at HK\$554 million.

The interest rate environment created difficult operating conditions for Treasury. A sustained rise in funding costs and a flattening of yield curves for all major currencies saw operating

profit excluding loan impairment charges decline by 50.3 per cent to HK\$1,183 million.

Operating costs rose 7.4 per cent to HK\$4,546 million following investment in future growth. We hired more staff to support the expansion of our Personal Financial Services and Commercial Banking businesses.

We increased our mainland China network of outlets to 12 with new openings in Shenzhen, Shanghai and Dongguan. Our number of full-time equivalent staff on the Mainland rose by 32.7 per cent to reach 377. These developments will help us win more business in this rapidly growing market.

Our 15.98 per cent investment in Industrial Bank contributed HK\$358 million to our profits.

**“I would also like to express the Board’s appreciation to our shareholders and customers for their strong support and for sharing our firm belief in Hang Seng’s excellent prospects for future growth.”**

## LEADERSHIP

I became Chairman of Hang Seng on 22 April 2005 following Mr David Eldon’s retirement. Since then, I have had the pleasure of welcoming several new colleagues to the Board and to our senior management team.

On 25 May 2005, Mr Raymond Or became Vice-Chairman and Chief Executive of Hang Seng after Mr Vincent Cheng took up the position of Chairman of The Hongkong and Shanghai Banking Corporation Limited.

On the same day, Mr Peter Wong, Group General Manager and Executive Director, Hong Kong and Mainland China, The Hongkong and Shanghai Banking Corporation Limited, was appointed as a non-executive Director of Hang Seng.

Mr Mok Wai Kin, former Managing Director and Chief Operating Officer, is on pre-retirement leave until 1 April 2006 after more than 39 years of distinguished service. Mrs Dorothy Sit, formerly Head of Personal Financial Services, Hong Kong, at The Hongkong and Shanghai Banking Corporation Limited, has been appointed Chief Operating Officer.

Mr Patrick Chan, formerly Deputy General Manager and Chief Financial Officer, was promoted to Executive Director and Chief Financial Officer with effect from 7 December 2005.

A strong team is crucial to achieving our goals. On behalf of the Directors, I wish to thank all staff for their continuing dedication to service excellence and business success. As part of our strategy to retain and motivate valuable talent, performance-related pay rises of up to 8 per cent were awarded in January 2006.

I would also like to express the Board’s appreciation to our shareholders and customers for their strong support and for sharing our firm belief in Hang Seng’s excellent prospects for future growth.



OUR  
VISION

## CHAIRMAN'S STATEMENT (continued)

“ Hang Seng has always placed strong emphasis on enhancing shareholder value in a sustainable way. Our roadmap furthers this commitment by establishing a sound strategy and targets that will help us steer our business forward. ”

### VISION FOR GROWTH

Our vision is to increase shareholder value by becoming the leading regional bank in Greater China, focusing particularly on southern China and the Yangtze River Delta region. With this as our central objective, we have developed a roadmap for growth that establishes high business targets and a plan for achieving them. More details of our goals and strategy can be found in the Chief Executive's Report.

This does not involve a dramatic change in course. Hang Seng's competitive advantages such as premium customer service, brand

strength and prudent financial management are central to our new strategy. However, we will optimise these advantages and be more progressive in pursuing our targets and reviewing business lines, service offerings and human resources.

Hong Kong's economy is expected to continue on an upward trend in 2006, albeit at a slower pace. With the expected growth in trade, Hong Kong's close economic ties with the Mainland will benefit merchandise and service exports. On the domestic front, improving employment conditions will boost consumer purchasing power.

However, it will not be plain sailing. Oil price movements, US interest rate trends and a build up of labour and rental cost pressures all have the potential to create new challenges to economic growth.

But we will capitalise on the opportunities and rely on our core strengths to successfully navigate any change in the economic climate.

Hang Seng has always placed strong emphasis on enhancing shareholder value in a sustainable way. Our roadmap furthers this commitment by establishing a sound strategy and targets that will help us steer our business forward.

**Michael Smith**

Chairman

Hong Kong, 6 March 2006