



LEADING for Growth

“Hang Seng will continue to drive its business forward, flying the flag for premium customer service, sustainable growth and increasing value for shareholders.”



Mr Michael Smith
Chairman

A sharp focus on our vision for long-term business growth along with good economic conditions helped Hang Seng achieve positive results in 2006.

Our personal wealth management business recorded significant rises in income from investment services, insurance and Private Banking. Commercial Banking performed strongly, underpinned by increases in customer advances and the development of corporate wealth management services. Additional investments in our mainland China operations yielded encouraging growth.

Operating profit rose by 13.6 per cent to HK\$12,576 million, reflecting good growth of primary business drivers as well as a drop in loan impairment allowances. Operating profit excluding loan impairment charges and other credit risk provisions grew by 9.9 per cent to HK\$12,840 million.

Attributable profit increased 6.1 per cent to a record HK\$12,038 million. Earnings per share were up 6.2 per cent at HK\$6.30.

The Directors have announced a fourth interim dividend of HK\$1.90 per share. In light of capital requirements for future business expansion, particularly on the Mainland, total distribution for 2006 is HK\$5.20 per share, the same as in 2005.

Operating expenses increased by 15.3 per cent to HK\$5,241 million with further investments in human resources, IT, marketing and branding to support business growth in Hong Kong and on the Mainland.

Our return on average shareholders' funds was 27.4 per cent.

Our total capital ratio was 13.6 per cent at year-end, up 0.8 percentage point compared with 31 December 2005. Our tier 1 ratio was up 0.3 percentage point at 10.7 per cent.

Personal Financial Services' operating profit excluding loan impairment charges grew by 5.4 per cent to HK\$7,840 million. Wealth management income was up 22.7 per cent at HK\$4,281 million, reflecting record investment product sales, a high level of stock market activity and a 17.5 per cent rise in life insurance income. We also benefited from high levels of consumer confidence, recording increases in our credit card base and cardholder spending as well as in personal lending.

Commercial Banking's operating profit excluding loan impairment charges rose 21.5 per cent to HK\$2,001 million. Customer

advances grew by 22.2 per cent with trade finance gaining market share. Lending to the manufacturing industry and wholesale and retail sector outpaced the market average as a result of refined segmentation and deepened relationships.

Intensified marketing saw a 34.7 per cent increase in the number of new small and medium-sized enterprise accounts acquired in the second half of 2006 compared with the first half. Good progress with corporate wealth management services and card acquiring business underpinned growth in net fees and commissions and net trading income.

With keen competition continuing to put pressure on lending margins, Corporate Banking focused on asset yield. We further diversified our customer base, grew deposits by 32.5 per cent and took advantage of cross-selling opportunities. The strong growth of our targeted business segments helped to compensate for the decline in operating profit before loan impairment charges from lending to large corporates. Net operating income increased by 11.8 per cent. Net operating income excluding loan impairment charges rose 2.3 per cent. Operating profit excluding loan

impairment charges was HK\$543 million, down 2 per cent compared with 2005.

Treasury's operating profit excluding loan impairment charges declined 25 per cent to HK\$887 million. Efforts to expand proprietary trading and customer-driven business helped trading income grow by 66.1 per cent to HK\$628 million. However, net interest income fell by HK\$514 million, or 51.7 per cent, as the balance sheet management portfolio continued to be challenged by rising funding costs and flattened yield curves.

Our Mainland business recorded good growth in advances, deposits, customer base and profit contribution. Operating profit excluding loan impairment charges at our Mainland branches rose by 211.9 per cent. We upgraded a representative office to a branch and opened three new sub-branches during the year. In December, we were granted permission to begin preparations for the establishment of a Mainland subsidiary. Our subsidiary bank will be named Hang Seng Bank (China) Limited and will be headquartered in Shanghai.

To demonstrate our strong commitment to this exciting market, in September we held a Board of Directors' meeting on the Mainland for the first time.

Our People

Business success relies on the teamwork and talents of our staff. We work to bring out the best in our employees and they continue to

exceed our expectations. In 2006, putting our roadmap for growth strategy into action and ensuring that our comprehensive brand strengthening programme moved full steam ahead were just two of the tasks enthusiastically embraced by staff at all levels. That Hang Seng remains a standard-bearer for superior customer service is a testament to their commitment and professionalism.

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In recognition of this dedication to excellence, the Directors approved performance-related salary increases of up to 8.75 per cent, which took effect in January 2007.

I also wish to convey the Board's thanks to our customers and shareholders for their continued support of Hang Seng and for providing both inspiration and incentive as we work to enhance our position as a leading financial institution in Greater China.

Moving Ahead

Hong Kong is likely to experience above-trend growth in 2007. Economic uncertainty in the US generated by weaknesses in the housing market may result in a slowing of export and re-export trade activity. However, sustained economic momentum, the

stabilisation of interest rates and the improving labour market will continue to drive domestic demand. The positive economic outlook for the Mainland also augurs well.

Against this backdrop, we will build on the good momentum generated in 2006 by making greater use of our competitive advantages, further developing our core business areas, strengthening our service capabilities

in market segments with high growth potential and growing our Mainland business more rapidly.

We have taken significant strides in the past year, but there is still much to do. Focusing on our strategic plan for growth, Hang Seng will continue to drive its business forward, flying the flag for premium customer service, sustainable growth and increasing value for shareholders.



Michael Smith

Chairman

Hong Kong, 5 March 2007