



HANG SENG BANK

2003 INTERIM RESULTS



PROFIT

The Directors announce that Hang Seng Bank Limited (the Bank) and its subsidiary and associated companies (Hang Seng) reported an unaudited profit attributable to shareholders of HK\$5,022 million for the first half of 2003, a decrease of 3.8% compared with the first half of 2002 but an increase of 6.9% compared with the second half of 2002. Earnings per share of HK\$2.63 were 3.7% lower than the first half of 2002.

Operating profit before provisions rose by HK\$224 million, or 3.8%, to HK\$6,073 million, attributable to the encouraging 20.9% growth in other operating income, which outweighed the fall of 4.3% in net interest income. Operating profit grew by 0.9% to HK\$5,617 million, after taking into account the net charge for bad and doubtful debts which rose by 62.3% to HK\$456 million. Profit before tax amounted to HK\$5,928 million, which was HK\$50 million, or 0.8%, lower than the first half of 2002. This was affected by the deficit on property revaluation following an interim property revaluation exercise and lower profits from associated companies. The taxation charge was HK\$91 million, or 12.1%, higher, mainly due to the increase in the Hong Kong profits tax rate from 16.0% to 17.5%. Compared with the second half of 2002, operating profit before provisions and profit before tax increased by 12.3% and 12.6% respectively.

FIRST INTERIM DIVIDEND

The Directors have declared a first interim dividend of HK\$2.10 per share (HK\$2.10 per share for the first half of 2002), which will be payable on Thursday, 4 September 2003 to shareholders on the Register of Shareholders as of Wednesday, 27 August 2003. The dividend as declared should not be taken as an indication of the level of profit or dividend for the full year.

Acknowledging the increasing importance of dividend flows to our shareholders, the Board has decided to move to a programme of quarterly dividends, starting in January 2004. Further details will be announced in due course.

CONSOLIDATED PROFIT AND LOSS ACCOUNT (unaudited)

	Half-year to 30.6.2003 HK\$m	Half-year to 30.6.2002 HK\$m restated [†]	Half-year to 31.12.2002 HK\$m restated [†]
Interest income	6,662	7,617	7,343
Interest expense	(1,442)	(2,164)	(1,991)
Net interest income	5,220	5,453	5,352
Other operating income (Note 1)	2,674	2,212	2,070
Operating income	7,894	7,665	7,422
Operating expenses (Note 2)	(1,821)	(1,816)	(2,016)
Operating profit before provisions	6,073	5,849	5,406
Provisions for bad and doubtful debts	(456)	(281)	(290)
Operating profit	5,617	5,568	5,116
Profit on tangible fixed assets and long-term investments [#]	341	343	118
Net deficit on property revaluation	(48)	—	(36)
Share of profits of associated companies	18	67	66
Profit on ordinary activities before tax	5,928	5,978	5,264
Tax on profit on ordinary activities (Note 3)	(846)	(755)	(552)
Profit on ordinary activities after tax	5,082	5,223	4,712
Minority interests	(60)	—	(15)
Profit attributable to shareholders	5,022	5,223	4,697
Retained profits at beginning of period	—	—	—
- as previously reported	19,440	19,499	20,756
- arising on change in accounting policies	—	254	249
- as restated	19,440	19,753	21,005
Transfer of depreciation to premises revaluation reserve	35	40	39
Realisation on disposal of premises and investment properties	23	2	7
Exchange adjustments	(1)	2	1
Proposed dividends	(4,015)	(4,015)	(6,309)
Retained profits at end of period	20,504	21,005	19,440

[#] Including provision for impairment of long-term investments

Earnings per share (Note 4)
Dividends per share
Net asset value per share at end of period

	30.6.2003 HK\$2.63	30.6.2002 HK\$2.73	31.12.2002 HK\$2.46
	HK\$2.10	HK\$2.10	HK\$3.30
	HK\$21.58	HK\$22.81	HK\$22.77

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes'.

INFORMATION IN THE CONSOLIDATED BALANCE SHEET (unaudited)

	30.6.2003 HK\$m	30.6.2002 HK\$m restated [†]	31.12.2002 HK\$m restated [†] (audited)
Assets			
Cash and short-term funds	67,309	88,438	77,784
Placings with banks maturing after one month	27,738	42,192	30,919
Certificates of deposit	29,625	26,822	30,120
Securities held for dealing purposes	1,047	1,209	1,198
Advances to customers (Note 5)	226,171	225,746	224,562
Amounts due from immediate holding company and fellow subsidiary companies	7,596	10,425	7,471
Long-term investments (Note 6)	99,077	54,918	79,169
Investments in associated companies	675	1,051	672
Tangible fixed assets	9,555	11,237	10,439
Other assets	13,515	8,640	12,320
482,308	470,678	474,654	
Liabilities			
Current, savings and other deposit accounts (Note 7)	419,083	408,295	413,693
Deposits from banks	2,359	2,287	1,072
Amounts due to immediate holding company and fellow subsidiary companies	757	1,896	1,615
Other liabilities	18,850	14,584	14,745
441,049	427,062	431,125	

Capital resources

	30.6.2003 HK\$m	30.6.2002 HK\$m restated [†]	31.12.2002 HK\$m restated [†] (audited)
Minority interests	529	—	444
Share capital	9,559	9,559	9,559
Reserves	27,156	30,042	27,217
Proposed dividends	4,015	4,015	6,309
Shareholders' funds	40,730	43,616	43,085
	41,259	43,616	43,529
	482,308	470,678	474,654

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes'.

Notes:

	Half-year to 30.6.2003 HK\$m	Half-year to 30.6.2002 HK\$m	Half-year to 31.12.2002 HK\$m
1 Other operating income			
Dividend income	37	53	46
Net fees and commissions	1,441	1,434	1,171
Dealing profits			
- foreign exchange	352	280	324
- securities and other trading activities	9	10	6
Insurance underwriting	361	290	330
Rental income from investment properties	538	125	208
Other	104	113	112
	193	197	203
	2,674	2,212	2,070
2 Operating expenses			
Staff costs			
- salaries and other costs	908	915	952
- retirement benefit costs	91	98	94
Depreciation	999	1,013	1,046
Premises and equipment	171	174	178
- rental expenses	88	84	87
- other	280	282	359
Other operating expenses	368	366	446
	283	263	346
	1,821	1,816	2,016
Cost:income ratio	23.1%	23.7%	27.2%
Staff numbers (full-time equivalent)	7,174	7,321	7,279
3 Taxation in the consolidated profit and loss account represents:			
Provision for Hong Kong profits tax	836	745	483
Taxation outside Hong Kong	2	3	3
Deferred tax	5	(3)	56
Share of associated companies' taxation	3	10	10
Total charge for taxation	846	755	552
Effective tax rate	14.3%	12.6%	10.5%

The current tax was provided for based on the estimated assessable profit for the first half of 2003 and, for the Bank and subsidiaries operating in the Hong Kong SAR, using the Hong Kong profits tax rate of 17.5% (16.0% for 2002). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the countries in which they operate are used.

Following the adoption of the Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes' which became effective on 1 January 2003, deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

[†] Certain figures for 2002 have been restated to reflect the adoption of Hong Kong Statement of Standard Accounting Practice 12 (revised) (HKSSAP 12) on 'Income taxes'.

4 The calculation of earnings per share for the first half of 2003 is based on earnings of HK\$5,022 million (HK\$5,223 million in the first half of 2002) and on the weighted average number of ordinary shares in issue of 1,911,842,736 shares (unchanged from the first half of 2002).

	30.6.2003 HK\$m	30.6.2002 HK\$m	31.12.2002 HK\$m
(a) Advances to customers			
Gross advances to customers	228,840	228,893	227,475
Specific provisions	(1,568)	(1,710)	(1,805)
General provisions	(1,101)	(1,437)	(1,108)
	226,171	225,746	224,562
Remaining maturity:			
- repayable on demand	12,162	12,128	11,983
- three months or less but not repayable on demand	17,263	15,441	18,128
- one year or less but over three months	22,512	26,036	21,243
- five years or less but over one year	85,981	83,242	84,466
- over five years	82,189	84,628	84,273
- overdue for more than one month	3,062	1,452	1,301
- non-performing advances	5,671	5,966	6,081
Gross advances to customers	228,840	228,893	227,475
Provisions for bad and doubtful debts	(2,669)	(3,147)	(2,913)
	226,171	225,746	224,562
Included in advances to customers are:			
- trade bills	2,309	2,222	2,180
- provisions for bad and doubtful debts	(23)	(66)	(78)
	2,286	2,156	2,102

(b) Provisions against advances to customers

	Specific HK\$m	General HK\$m	Total HK\$m	Suspended interest HK\$m
At 1 January 2003	1,805	1,108	2,913	404
Amounts written off	(721)	—	(721)	(93)
Recoveries of advances written off in previous years	22	—	22	—
Net charge/(release) to profit and loss account	462	(6)	456	—
Interest suspended during the period	—	—	—	77
Suspended interest recovered	—	—	—	(29)
Exchange adjustments	—	(1)	(1)	—
At 30 June 2003	1,568	1,101	2,669	359

(c) Non-performing advances to customers on which interest has been placed in suspense or on which interest has ceased to accrue are as follows:

	30.6.2003 HK\$m	30.6.2002 HK\$m	31.12.2002 HK\$m
Gross non-performing advances on which interest:			
- has been placed in suspense	5,567	5,622	5,767
- accrual has ceased	182	479	429
	5,749	6,101	6,196
Suspended interest	(78)	(135)	(115)
Gross non-performing advances* Specific provisions	5,671 (1,568)	5,966 (1,710)	6,081 (1,805)
Net non-performing advances	4,103	4,256	4,276
Specific provisions as a percentage of gross non-performing advances*	27.6%	28.7%	29.7%
Gross non-performing advances* as a percentage of gross advances to customers	2.5%	2.6%	2.7%

* Stated after deduction of interest in suspense.

(d) The amounts of advances to customers which are overdue for more than three months and their expression as a percentage of gross advances to customers are as follows:

	30.6.2003 HK\$m	30.6.2002 HK\$m	31.12.2002 HK\$m
Gross advances to customers* which have been overdue with respect to either principal or interest for periods of:			
- six months or less but over three months	1,196	823	934
- one year or less but over six months	1,098	1,321	1,097
- over one year	2,460	2,910	2,734
Overdue advances to customers	4,754	5,054	4,765
Less: overdue advances on which interest is still being accrued	(1,305)	(691)	(1,131)
Add: advances overdue for periods of three months or less, or which are not yet overdue, and on which interest has been placed in suspense			
- included in rescheduled advances	1,843	321	1,814
- other	379	1,282	633
Gross non-performing advances*	5,671	5,966	6,081
Overdue advances to customers as a percentage of gross advances to customers	2.1%	2.2%	2.1%

* Stated after deduction of interest in suspense.

(e) The amount of rescheduled advances and its expression as a percentage of gross advances to customers are as follows:

	30.6.2003		30.6.2002		31.12.2002	
	HK\$m	%	HK\$m	%	HK\$m	%
Rescheduled advances to customers*	2,958	1.3	391	0.2	1,831	0.8

* Stated after deduction of interest in suspense.

(f) Segmental analysis of advances to customers by geographical area

At 30 June 2003, over 90% of Hang Seng's advances to customers and the related non-performing advances and overdue advances were classified under the area of Hong Kong (unchanged from the positions at 30 June 2002 and 31 December 2002).

(g) Gross advances to customers by industry sector

The analysis of gross advances to customers (after deduction of interest in suspense) by industry sector based on categories and definitions used by the Hong Kong Monetary Authority is as follows:

	30.6.2003 HK\$m	30.6.2002 HK\$m	31.12.2002 HK\$m
Gross advances to customers for use in Hong Kong			
Industrial, commercial and financial sectors			
Property development	17,910	19,775	19,300
Property investment	33,268	29,952	31,507
Financial concerns	3,681	2,121	2,071
Stockbrokers	154	199	219
Wholesale and retail trade	4,097	3,755	3,941
Manufacturing	2,096	2,032	2,037
Transport and transport equipment	8,885	9,671	9,238
Other	20,158	19,129	19,521
	90,249	86,634	87,834
Individuals			
Advances for the purchase of flats under the Government Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	32,840	36,752	35,050
Advances for the purchase of other residential properties	77,972	78,937	78,518
Credit card advances	5,186	5,419	5,578
Other	6,283	6,944	6,251
	122,281	128,052	125,397
Total gross advances for use in Hong Kong	212,530	214,686	213,231
Trade finance	11,029	10,002	9,751
Gross advances for use outside Hong Kong	5,281	4,205	4,493
Gross advances to customers	228,840	228,893	227,475

6 Long-term investments

(a) Carrying value of long-term investments

	Carrying Value		
	30.6.2003 HK\$m	30.6.2002 HK\$m	31.12.2002 HK\$m
Held-to-maturity debt securities	97,263	51,972	76,854
Equity investments	1,814	2,946	2,315
	99,077	54,918	79,169

(b) Fair value of long-term investments

	Fair Value		
	30.6.2003 HK\$m	30.6.2002 HK\$m	31.12.2002 HK\$m
Held-to-maturity debt securities	98,838	52,531	78,023

7 Current, savings and other deposit accounts

	30.6.2003 HK\$m	30.6.2002 HK\$m	31.12.2002 HK\$m
Customer deposit accounts			
- current accounts	38,854	32,548	36,242
- savings accounts	165,717	146,910	154,476
- time and other deposits	204,445	211,020	206,973
Certificates of deposit in issue	10,014	17,809	15,916
Other debt securities in issue	53	8	86
	419,083	408,295	413,693

8 Analysis of capital base and risk-weighted assets

	30.6.2003 HK\$m	30.6.2002 HK\$m	31.12.2002 HK\$m
Capital base			
Tier 1 capital			
- share capital	9,559	9,559	9,559
- retained profits	19,919	20,533	18,795
- capital redemption reserve	99	99	99
- total	29,577	30,191	28,453
Tier 2 capital			
- premises and investment properties revaluation reserves	4,160	5,674	5,153
- long-term equity investment revaluation reserve	459	1,056	705
- general provisions	1,101	1,437	1,108
- total	5,720	8,167	6,966
Unconsolidated investments and other deductions	(1,404)	(1,608)	(1,376)
Total capital base after deductions	33,893	36,750	34,043
Risk-weighted assets			
On-balance sheet	226,484	224,802	222,758
Off-balance sheet	14,243	14,058	16,262
Total risk-weighted assets	240,727	238,860	239,020
Total risk-weighted assets adjusted for market risk	241,300	239,200	239,426
Capital adequacy ratios			
After adjusting for market risk			
- tier 1*	12.3%	12.6%	11.9%
- total*	14.0%	15.4%	14.2%

* The capital ratios take into account market risks in accordance with the relevant Hong Kong Monetary Authority guideline under the Supervisory Policy Manual.

9 The aggregate contract amount and risk-weighted amount of contingent liabilities, commitments and derivatives are as follows:

	30.6.2003		30.6.2002		31.12.2002	
	Contract amount	Risk-weighted amount	Contract amount	Risk-weighted amount	Contract amount	Risk-weighted amount
Figures in HK\$m						
Contingent liabilities:						
Guarantees	10,974	3,650	14,635	4,311	13,864	4,321
Commitments:						
Documentary credits and short-term trade-related transactions	7,142	1,422	7,470	1,492	6,982	1,394
Undrawn formal standby facilities, credit lines and other commitments to lend:						
- under one year	64,708	—	65,755	—	65,110	—
- one year and over	19,539	8,444	16,668	7,656	21,565	9,840
Other	38	38	47	47	41	41
	91,427	9,904	89,940	9,195	93,698	11,275
Contracts:						
- Exchange rate	126,952	350	118,301	290	97,711	306
- Interest rate	91,501	339	68,750	261	72,412	359
- Other derivative	108	1	16	—	177	1

10 The aggregate replacement cost of exchange rate contracts, interest rate contracts and other derivative contracts are as follows:

	30.6.2003		30.6.2002		31.12.2002	
Figures in HK\$m						
Replacement cost						
Exchange rate contracts	738	—	501	—	485	—
Interest rate contracts	1,072	—	879	—	1,231	—
Other derivative contracts	1	—	—	—	1	—
	1,811	—	1,380	—	1,717	—

The replacement cost of contracts represents the mark-to-market assets on all contracts (including non-trading contracts) with a positive value and which have not been subject to any bilateral netting arrangement.

11 Segmental analysis

(a) By business segment

	Personal Financial Services	Commercial Banking	Corporate & Institutional Banking	Treasury	Other	Inter-segment Elimination	Total
Figures in HK\$m							
Half-year ended 30 June 2003							
Income and expenses							
Net interest income	3,186	501	271	901	361	—	5,220
Other operating income	1,705	464	105	228	172	—	2,674
Inter-segment income	—	—	—	—	173	(173)	—
Total operating income	4,891	965	376	1,129	706	(173)	7,894
Operating expenses*	(1,157)	(383)	(52)	(66)	(163)	—	(1,821)
Inter-segment expenses	(138)	(29)	(3)	(3)	—	173	—
Operating profit before provisions	3,596	553	321	1,060	543	—	6,073
Provisions for bad and doubtful debts	(570)	71	43	—	—	—	(456)
Operating profit	3,026	624	364	1,060	543	—	5,617
Profit on tangible fixed assets and long-term investments	12	28	—	40	261	—	341
Net deficit on property revaluation	—	—	—	—	(48)	—	(48)
Share of profits of associated company	—	—	—	—	18	—	18
Profit on ordinary activities before tax	3,038	652	364	1,100	774	—	5,928
Operating profit excluding inter-segment transactions	3,164	653	367	1,063	370	—	5,617
* Including depreciation	(63)	(11)	(1)	(1)	(95)	—	(171)
At 30 June 2003							
Total assets	134,547	28,246	67,731	229,219	22,565	—	482,308
Total liabilities	324,132	71,354	16,948	10,839	17,776	—	441,049
Investments in associated company	—	—	—	—	675	—	675
Capital expenditure incurred during the period	48	10	2	1	23	—	84
Half-year ended 30 June 2002							
Income and expenses							
Net interest income	3,334	507	324	863	425	—	5,453
Other operating income	1,303	426	132	161	190	—	2,212
Inter-segment income	—	—	—	—	207	(207)	—
Total operating income	4,637	933	456	1,024	822	(207)	7,665
Operating expenses*	(1,179)	(353)	(54)	(61)	(169)	—	(1,816)
Inter-segment expenses	(167)	(33)	(4)	(3)	—	207	—
Operating profit before provisions	3,291	547	398	960	653	—	5,849
Provisions for bad and doubtful debts	(383)	2	82	—	18	—	(281)
Operating profit	2,908	549	480	960	671	—	5,568
Profit on tangible fixed assets and long-term investments	21	28	—	75	219	—	343
Share of profits of associated companies	45	—	—	—	22	—	67
Profit on ordinary activities before tax	2,974	577	480	1,035	912	—	5,978
Operating profit excluding inter-segment transactions	3,075	582	484	963	464	—	5,568
* Including depreciation	(60)	(11)	(2)	(1)	(100)	—	(174)
At 30 June 2002							
Total assets	136,420	24,752	64,673	219,769	25,064	—	470,678
Total liabilities	309,819	66,064	12,772	11,935	26,472	—	427,062
Investments in associated companies	368	—	—	—	683	—	1,051
Capital expenditure incurred during the period	61	9	1	1	20	—	92

(b) By geographical region

Figures in HK\$m Half-year ended 30 June 2003	Hong Kong	Americas	Other	Total
Income and expenses				
Total operating income	7,196	661	37	7,894
Profit on ordinary activities before tax	5,238	648	42	5,928
At 30 June 2003				
Total assets	408,425	65,882	8,001	482,308
Total liabilities	426,991	9,718	4,340	441,049
Capital expenditure incurred during the period	78	—	6	84
Contingent liabilities and commitments	106,429	—	1,092	107,521
Half-year ended 30 June 2002				
Income and expenses				
Total operating income	6,794	835	36	7,665
Profit on ordinary activities before tax	5,105	833	40	5,978
At 30 June 2002				
Total assets	360,773	103,615	6,290	470,678
Total liabilities	413,662	9,352	4,048	427,062
Capital expenditure incurred during the period	91	—	1	92
Contingent liabilities and commitments	103,923	—	652	104,575

12 Remuneration and staff development

There have been no material changes to the information disclosed in the Annual Report 2002 in respect of the remuneration of employees, remuneration policies and staff development.

13 Accounting policies

This results advertisement has been prepared on a basis consistent with the accounting policies adopted in the 2002 financial statements except for the change in accounting policy for deferred tax to comply with the HKSSAP 12 as set out in note 3 above.

The adoption of HKSSAP 12 represents a change in accounting policy which has been applied retrospectively. The change in accounting policy has been reflected by way of a prior period adjustment and the comparative figures for 2002 have been restated to conform with the current period's presentation accordingly.

REVIEW OF OPERATIONS

Net interest income decreased by HK\$233 million, or 4.3%, compared with the first half of 2002. Average interest-earning assets fell by HK\$5.2 billion, or 1.2%. **Net interest margin** narrowed by 8 basis points to 2.41% with a reduction in net interest spread of 5 basis points to 2.33% and a fall in contribution from net free funds of 3 basis points to 0.08%. Net interest income was affected by the fall in the average mortgage portfolio yield, contraction in the Government Home Ownership Scheme (GHOS) mortgages portfolio together with the narrowing of time deposit spread. This was partly offset by the growth in savings and current accounts and the expansion of the fixed rate debt securities portfolio which continued to benefit from lower interest rates.

Other operating income recorded strong growth of HK\$462 million, or 20.9%, and contributed 33.9% of total operating income, compared with 28.9% for the first half of 2002. With a 48.8% growth in sales of retail investment funds to HK\$22.6 billion, total income from the distribution and management of retail investment funds, including the popular Hang Seng Investment Series of capital guaranteed funds and index funds, rose by 45.1% to HK\$685 million for the first half of 2003. Insurance fees and underwriting profit together grew by 88.1% compared with the first half of 2002, reflecting rapid growth in individual life insurance premiums and the embedded value of the long-term insurance business.

Operating expenses increased marginally by HK\$5 million, or 0.3%, to HK\$1,821 million compared with the same period last year. Staff costs decreased by HK\$14 million, or 1.4%, attributable to the reduction of 147 staff members on a full-time equivalent basis. Premises and equipment expenses were maintained at the same level. Other operating expenses increased by HK\$20 million, or 7.6%, mainly due to the increase in processing charges.

The **net charge for bad and doubtful debts** amounted to HK\$456 million, an increase of HK\$175 million, or 62.3%, over the same period last year. New and additional specific provisions rose by HK\$138 million, or 26.1%, to HK\$666 million, reflecting higher provisions on residential mortgages and credit card advances due to the rise in unemployment and personal bankruptcies and the fall in value of property collateral. Releases and recoveries were reduced by HK\$43 million, or 17.4%, to HK\$204 million, reflecting the decrease in recoveries from residential mortgages and taxi loans. Following the semi-annual review of the general provisioning level at 30 June 2003, a small release of HK\$6 million was made.

Advances to customers (after deduction of interest in suspense and provisions) recorded a modest growth of HK\$1,609 million, or 0.7%, to HK\$226.2 billion at 30 June 2003, with loan demand remaining weak during the period.

Total provisions as a percentage of gross advances to customers fell to 1.17% at 30 June 2003, compared with 1.28% at the end of 2002. Specific provisions as a percentage of gross advances decreased by 10 basis points to 0.69%. The reduction mainly reflected the writing-off of irrecoverable balances and the repayment and upgrading of rescheduled advances and doubtful accounts to performing status. General provisions stood at 0.48% of gross advances to customers, compared with 0.49% at the end of 2002.

Gross non-performing advances (after deduction of interest in suspense) fell by HK\$410 million, or 6.7%, to HK\$5,671 million, compared with the end of 2002. The ratio of gross non-performing advances to gross advances to customers further improved to 2.5% from 2.7% at the end of 2002.

Current, savings and other deposit accounts increased by HK\$5.4 billion, or 1.3%, to HK\$419.1 billion, compared with HK\$413.7 billion at 31 December 2002. During the period, customers continued to shift from time deposits to savings and current accounts, reflecting preference for liquidity in the prevailing low interest rate environment. **Certificates of deposit and other debt securities in issue** fell by HK\$5.9 billion, or 37.1%, to HK\$10.1 billion following the maturity of part of the certificates of deposit portfolio.

Shareholders' funds (excluding proposed dividends) fell by HK\$61 million, or 0.2%, to HK\$36,715 million at 30 June 2003. Retained profits rose by HK\$1,064 million. Premises and investment properties revaluation reserves fell by HK\$761 million as a result of the further decline in the property market and the provision for deferred tax on property revaluation surplus following the adoption of the HKSSAP 12. The disposal of long-term equities led to a reduction of HK\$364 million in the long-term equity investment revaluation reserve.

The **return on average total assets** was 2.1% (2.2% for the first half of 2002). The **return on average shareholders' funds** was 24.4%, compared with 24.1% in the first half of 2002 and 21.9% in the second half of 2002 respectively.

The **advances to deposits ratio** fell to 54.0% at 30 June 2003 compared with 54.3% at 31 December 2002, the effect of a faster pace of growth in customer deposits than customer advances during the first half of 2003. Hang Seng continued to maintain a strong liquidity position, with the **average liquidity ratio** for the first half of 2003 (calculated in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance) at 45.0% (43.4% for the first half of 2002).

Personal financial services recorded growth of 2.2% in profit before tax, compared with the same period last year. Net interest income fell by 4.4%, as average mortgage yields fell, and there was a contraction in the GHOS mortgage portfolio. Other operating income rose by 30.9%. Wealth management services remain a growth driver, with the contribution from investment services and insurance business rising by 37.0% and 37.6% respectively.

Sales of retail investment funds, including the popular Hang Seng Investment Series, increased by 48.8%. A total of 17 investment funds were launched under the Investment Series in the first half of 2003, taking the total to 77 at 30 June 2003. The total included 56 capital guaranteed funds - the largest group of capital guaranteed funds in Hong Kong.

Hang Seng launched a new lifestyle banking service, Leisure Class, in June 2003 targeting retirees and those who are planning to retire. During the first half of 2003, Prestige Banking Centres for affluent customers increased by 7 to 66. At the end of June 2003, the number of customers registered for Personal e-Banking services in Hong Kong had grown to about 290,000, an increase of about 14% from six months earlier. The number of internet transactions had risen to 17.7% of total transactions and online share trading to 56.3% of total securities transactions.

Commercial banking reported a growth of 13.0% in profit before tax. The results benefited from the increase in fee income, mainly trade services related, and the substantial release in bad debt provisions. Although customer advances grew by 13.7%, mainly due to improved external trade, net interest income was affected by the compression in lending and deposit spreads.

Corporate and institutional banking suffered a decline of 24.2% in profit before tax as corporate lending spreads declined and credit facilities income fell, and was also affected by the reduction in release of provisions for bad and doubtful debts.

Treasury achieved a growth of 6.3% in pre-tax profit over the same period last year. Net interest income rose by 4.4% as more funds were re-deployed from interbank placings to capital market investments for enhancement of interest yield, while the fixed rate debt securities portfolio continued to benefit under a low interest rate environment. Other operating income increased by 41.6%, mainly in foreign exchange income.

In mainland China, the Guangzhou branch received approval in June 2003 to operate renminbi services. The Shenzhen branch has made an application for a renminbi licence. The Bank is currently preparing to open a branch in Nanjing and a sub-branch in Huai Hai Zhong Road, Shanghai. A representative office of Hang Seng Investment Management Limited was opened in Shenzhen in March 2003.

In May 2003, Hang Seng participated in the Government's Loan Guarantee Scheme of HK\$3.5 billion to assist four industries affected by SARS and launched a HK\$75 million package of measures to provide financial relief to SARS affected individuals and hard hit business and promote local consumption.

COMMENT BY DAVID ELDON, CHAIRMAN

"Despite the effects of the SARS outbreak and sluggish economy in the first half of 2003, Hang Seng achieved a creditable growth in operating profit of 0.9% to HK\$5,617 million, reflecting the resilience of the Bank's core business. Attributable profit, however, fell by 3.8% to HK\$5,022 million due to a higher rate of profits tax and a further decline in the value of properties held.

"The Hong Kong economy will remain difficult in the second half of 2003. Growth in major export markets continues to slacken, while domestically demand remains sluggish, unemployment high and asset prices weak. The banking sector will continue to face the challenges of subdued loan demand and narrowing margins.

"Hang Seng will continue to build on its financial strength, clear customer focus and operating efficiency to create value for shareholders and customers. In particular, we will strengthen support to commercial customers in the Pearl River Delta."

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

During the six months ended 30 June 2003 there was no purchase, sale or redemption by the Bank, or any of its subsidiary companies, of the Bank's listed securities.

CODE OF BEST PRACTICE

None of the Directors is aware of information that would reasonably indicate that the Bank is not, or was not for any part of the accounting period for the first half of 2003 in compliance with the Code of Best Practice adopted by the Bank, which includes all the guidelines set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the 'Exchange').

PUBLICATION OF INTERIM REPORT ON THE EXCHANGE'S WEBSITE

The 2003 Interim Report of the Bank containing all the information required by the Rules Governing the Listing of Securities on the Exchange will be published on the Exchange's website in due course.

REGISTER OF SHAREHOLDERS

The Register of Shareholders of Hang Seng Bank will be closed on Tuesday, 26 August 2003 and Wednesday, 27 August 2003, during which no transfer of shares can be registered. In order to qualify for the first interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 pm on Monday, 25 August 2003. The first interim dividend will be payable on Thursday, 4 September 2003 to shareholders on the Register of Shareholders of the Bank on Wednesday, 27 August 2003.

By Order of the Board

K W Ma
Secretary

Hong Kong, 4 August 2003

The information in this advertisement is unaudited and does not constitute statutory accounts. The statutory accounts for the year ended 31 December 2002, which contain an unqualified auditors' report, have been delivered to the Registrar of Companies and the Hong Kong Monetary Authority.

Copies of the interim results announcement may be obtained from the Company Secretary Department, Level 10, 83 Des Voeux Road Central, Hong Kong; or from Hang Seng's website www.hangseng.com. The interim results announcement has complied with the module on 'Interim Financial Disclosure by Locally

Incorporated Authorised Institutions' under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority in November 2002.

The 2003 Interim Report will be available from the same website on Monday, 4 August 2003. Printed copies of the 2003 Interim Report will be sent to shareholders in late August 2003.