



2001

2001
ANNUAL REPORT

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Corporate Profile

Delta Asia Financial Group

Background

The Delta Asia Financial Group is a full-fledged banking and financial services group encompassing the territories of Macau, Hong Kong and Japan. Its banking arm in Macau, Banco Delta Asia S.A.R.L. (formerly known as Banco Hang Sang, S.A.R.L.), and its deposit taking subsidiary in Hong Kong, Delta Asia Credit Limited (formerly known as Foreign Exchange and Investment Ltd.), started their operations in Macau and Hong Kong in 1935 and 1962 respectively. Nowadays, we have developed into an investment bank major in wealth management, complemented by commercial banking and insurance.

Corporate Mission

We will endeavour to satisfy our customers' banking and financial needs by providing professional services and collaborating with our customers in expanding their business into the developing markets in the Asia-Pacific Region.

Committed to Hong Kong and Macau as the domicile of our headquarters, we will strive to enhance the reputation and status of these two cities as major international and regional financial markets in the 21st century.

Holding Group

Delta Asia Group (Holdings) Ltd.

Major Subsidiaries

Banco Delta Asia S.A.R.L.

Delta Asia Credit Ltd.

Delta Asia Finance Ltd.

Delta Asia Financial Futures Ltd.

Delta Asia Insurance Ltd.

Delta Asia Insurance Agency Ltd.

Delta Asia Nominee Services Ltd.

Delta Asia (Nominees) Ltd.

Delta Asia Properties Ltd.

Delta Asia Research Ltd.

Delta Asia Secretarial Services Ltd.

Delta Asia Securities Ltd.

Website

www.delta-asia.com

Scope of Services

Deposit Taking

- Current and savings accounts in local and foreign currencies
- Fixed-term deposits in local and foreign currencies
- Multi-purpose accounts

Trade Financing

- Issuance of letters of credit
- Trust receipt financing
- Export DA/DP bill discounting and collection
- Packing credit
- Negotiation of export bills

Treasury Services

- Foreign exchange spot and forward dealing
- Foreign currency banknote dealing
- Mail and telegraphic transfers and demand drafts
- Physical gold and gold futures trading
- Foreign currency cheque negotiation
- Issuance of travellers' cheques

Commercial / Consumer Loans

- Mortgage loans
- Machinery and equipment financing
- Consumer goods instalment loans
- Accounts receivable financing
- Gold loans
- Various kinds of commercial lending

Investment & Merchant Banking Services

- Stock broking, financial futures and options broking
- Underwriting of new issues and placement of securities
- Merger and acquisition advisory services
- Portfolio management
- Offering of unit trusts and mutual funds
- Fixed and floating-rate bonds
- Custodial services
- Secretarial, accounting and nominee services

Insurance Underwriting and Agency Services

- Fire, marine and accident insurance
- Export credit insurance
- Travel insurance
- Medical insurance
- Motor vehicle insurance
- Home insurance
- Personal accident insurance

Corporate Information

Delta Asia Group (Holdings) Ltd.

Directors

AU Chong Kit, Stanley
AU Wing Ngok *
BUCHMANN Urs *
CROCKETT David *
KWAN Yuen Chiu, Paul *
LAU Kai Hing *
LAU Siu Lun, David
LEUNG Chi Ping, Michael MBE *
LEUNG Tim Chiu, Richard
MAR Selwyn *
MUSHKAT Miron
WEN Carson *

* Non-Executive Director

Senior Management Executives

AU Chong Kit, Stanley
Group Chairman

LEUNG Tim Chiu, Richard
Vice Chairman & Deputy Chief Executive Officer

MUSHKAT Miron
Group Executive Director and Chief Financial Officer

LAU Siu Lun, David
Executive Director

Banco Delta Asia S.A.R.L.
NG Chi Wai, Philip
Executive Director and Chief Co-ordinator

LAM Yin Lun, David
Executive Director, Credit and Risk/Operations

YAM Kwok Wing, Peter
Director of Treasury

Delta Asia Credit Limited
LAU Siu Lun, David
Chief Executive

FUNG Kam Cheung, Jack
Executive Director and Alternate Chief Executive

LEE Shui King, Thomas
Senior Operations Manager

YAM Kwok Wing, Peter
Director of Treasury

Delta Asia Securities Limited

AU Chong Kit, Stanley
Dealing Director

MUSHKAT Miron
Dealing Director

YIM Kai Ming, Daniel
Operations Manager

Delta Asia Financial Futures Limited

DAI Kok Kwong
Dealing Director

Delta Asia Insurance Limited

CHENG Kwok Choi, Johnny
Executive Director

Group Services

SIN Chun Hung, Gilbert
Chief Operations Controller

LAU Siu Lun, David
Group Credit Controller

TANG Fook Keung
Group Financial Controller

YAU Man Chi, Terence
Group Senior IT Manager

HO Yuen Ling, Victoria
Group Marketing Communications Manager

HUNG Lei Ping, Conita
Head of Research

Principal Solicitors

Johnson, Stokes and Master Solicitors & Notaries

19/F, Prince's Bldg., 10 Charter Road, Central,
Hong Kong.

Siao, Wen & Leung Solicitors & Notaries

15/F, Hang Seng Bldg., 77 Des Voeux Road Central,
Hong Kong.

Lea & White International Lawyers

29E Admiralty Centre Tower 1, 18 Harcourt Road,
Hong Kong.

Auditors

PricewaterhouseCoopers

Certified Public Accountants

33/F, Cheung Kong Center, 2 Queen's Road, Central,
Hong Kong.

Directors' Profile

Mr. AU Chong Kit, Stanley

Mr. Au, 61, Group Chairman, founded the first company of the Delta Asia Financial Group in Hong Kong — Delta Asia Credit Ltd. (formerly known as Foreign Exchange and Investment Ltd.) — in 1962. He was one of the pioneers who initiated the concept of merchant banking and set up the international gold bullion market in Hong Kong during the early 1970's.

Mr. Au's outstanding achievements in the financial industry earned him recognition by the London Financial Times in 1976 and the German magazines 'Das Kapital' in 1977 as one of Hong Kong's most successful financiers. In 1993, Mr. Au was elected to the Council of the Stock Exchange of Hong Kong Limited and was re-elected in 1996 for a term of another three years.

He is now the Chairman of the Management Board of the Small & Medium Enterprises Association of Macau; a Council Member of the Macau Association of Banks; a Council Member of the University of Macau and an Appointed Member of the Legislative Assembly of the Macau Special Administrative Region. He is also a Committee Member of the Chinese People's Political Consultative Conference Beijing Committee of the Central Government of China.

Mr. AU Wing Ngok*

Mr. Au, 85, Honorary Chairman, founded the first member of the Group — Banco Delta Asia S.A.R.L. (formerly known as Banco Hang Sang S.A.R.L.) — in 1935 and continued to manage the bank until 1980 when he retired. He still serves as a member of the Board of Directors of Delta Asia Group (Holdings) Ltd.

Dr. BUCHMANN Urs*

Dr. Buchmann, 45, was appointed as a Non-Executive Director in August 2001. He joined Credit Suisse's corporate banking organization in Switzerland in 1985. In 1987, he moved on to be the Chief Representative of Credit Suisse Beijing Representative Office.

In 1996, he became a Managing Director acting as the Country Head of Credit Suisse China. In 2000, he was appointed as the Country President for Credit Suisse Financial Services, comprising both the Credit Suisse Banking as well as the Winterthur Insurance activities.

Since January 2000, Dr. Buchmann has also served as President of the Beijing Chapter of the Swiss Chinese Chamber of Commerce. Moreover, he is a Director of Winterthur Insurance Asia Ltd., as well as of several of Winterthur's insurance and pension fund companies in Poland and Hungary.

Mr. CROCKETT, David*

Mr. Crockett, 55, joined the Group first as a Non-Executive Director in April 1997, and then as its Managing Director in November, 1997 until he subsequently retired at the end of year 2000. For almost three decades, he has been holding various senior positions in a number of major American banks and is experienced in domestic and international banking.

Prior to joining the Group, Mr. Crockett worked for banks in the United States, Switzerland, Japan and Taiwan.

Directors' Profile

Mr. KWAN Yuen Chiu, Paul*

Mr. Kwan, 61, is a fellow member of the Hong Kong Society of Accountants and the Association of International Accountants U.K. and has since 1992 been a Director and President of Forumax Company Limited, a management consultancy. Mr. Kwan was the Joint Managing Director of Playmates International Holdings Ltd. Hong Kong from 1988 to 1991, and was a Director and First Executive Vice President of a public company in New York City (which subsequently became a division of MCA Inc., USA) from 1983 to 1987. Prior to 1983, Mr. Kwan had been a Director and Group Controller of the Universal Group Hong Kong for over ten years. The Group was in manufacturing, marketing and distribution business of toys and gifts with subsidiaries in Asia-Pacific, North America and Europe.

Mr. LAU Kai Hing*

Mr. Lau, 55, carries on his own practice as a Certified Public Accountant and conducts management consultancy services. He has worked previously for the Group for more than five years in various senior positions.

Mr. Lau holds a Master Degree in Information Systems and fellow membership in the Association of Chartered and Certified Accountants, the Chartered Institute of Management Accountants and the Institute of Chartered Secretaries and Administrators. He is also a fellow member of the Hong Kong Society of Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Company Secretaries, as well as a member of the Institute of Management (United Kingdom).

Mr. LAU Siu Lun, David

Mr. Lau, 56, joined the Group in 1996 and is now the Chief Executive of Delta Asia Credit Ltd. Mr. Lau graduated from University of Hong Kong with a degree in Economics. He is a fellow member of the Association of Chartered and Certified Accountants, an associate member of the Hong Kong Institute of Bankers, the Hong Kong Society of Accountants, the Institute of Chartered Secretaries and Administrators and a senior associate of the Australian Institute of Banking and Finance.

Mr. LEUNG Chi Ping, Michael MBE*

Dr. Leung, 49, is the Chairman of Asia Security Reinsurance Agency Limited, a subsidiary company of the Toa Reinsurance Company Limited, Japan.

He is a fellow member of the Association of Chartered and Certified Accountants and an associate member of the Institute of Chartered Secretaries and Administrators. He holds a Master Degree in Business Administration from the University of Hull in England and a Doctorate Degree from the Pacific Institute of Science and Technology.

In 1991, Dr. Leung was selected by Junior Chamber of Commerce as one of the "Ten Outstanding Young Persons of Hong Kong" and was honoured with an MBE award in 1994.

Directors' Profile

Mr. LEUNG Tim Chiu, Richard

Mr. Leung, 49, joined the Group on 1st August 2001 as Vice Chairman and Deputy Chief Executive Officer. With 27 years of extensive banking experience, he was the Managing Director and Asia Region Head of HSBC Bank USA, formerly Republic National Bank of New York, prior to joining the Group. Before that, he has also held various senior positions at Citibank N.A. and Hang Seng Bank Limited respectively. He left Citibank N.A. as its Vice President of Treasury and Director of New Products in 1993.

He graduated from the University of Minnesota with an MBA degree in finance, and holds the professional qualification of Associate of the Chartered Institute of Bankers of London.

Mr. MAR Selwyn*

Mr. Mar, 66, was appointed as a Non-Executive Director of the Group in July 1996. Mr. Mar graduated in Economics from the London School of Economics at London University. He is a Chartered Accountant, the Managing Partner of Charles Mar Fan & Co., Certified Public Accountants and the Managing Director of Marfan & Associates Limited. He is also a Non-Executive Director of Chen Hsong Holdings Ltd. and a Non-Executive Director of the Standard London (Asia) Ltd. Mr. Mar was an Executive Director of the Sincere Company Ltd. during 1974 to 1994 and the President of the company between 1989 and 1994. He was also the President of Hong Kong Society of Accountants in 1991 and was a member of the Securities & Futures Appeals Panel and a Governor of the Chinese International School. Mr. Mar was involved in plastics industry as President of the Lion Rock Group of Companies in the 1970's.

Dr. MUSHKAT Miron

Dr. Miron Mushkat, 56, joined the Group as the Group Executive Director and Group Chief Financial Officer in February 2001. Prior to joining the Group, he was the Chief Economist at Indocam Asset Management, the asset management arm of France's largest bank Credit Agricole. He was previously Vice Chairman and Director of Economics & Strategy at its Asian branch. Before joining Indocam Asset Management, Dr. Mushkat served as Managing Director and Chief Economist at Lehman Brothers Asia, Director and Chief Economist at Baring Securities Asia, Professor at the University of Hong Kong and Professor at the Victoria University of Wellington in New Zealand. He was also for several years a member of Hong Kong Government's Transport Advisory Committee. Dr. Mushkat, who obtained his doctorate at the University of Manchester in the United Kingdom, is the author of numerous books and articles on Asian economic topics.

Mr. WEN Carson*

Mr. Wen, 49, has been a partner of Siao, Wen and Leung, Solicitors & Notaries for twenty years. He is a Deputy to the National People's Congress of PRC, a member of the Selection Committee for the First Government of the Hong Kong Special Administrative Region of the PRC and a China-appointed Attesting Officer. He was a Hong Kong Affairs Advisor to the PRC State Council's Hong Kong and Macau Affairs Office. He also sits on various government advisory bodies and appeal boards. Mr. Wen holds a Master of Arts Degree from Oxford University and a Bachelor of Arts Degree from Columbia University.

* Non-Executive Directors

Organisation Structure



Five-Year Financial Summary

(all expressed in HK\$ Million)

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---------------|--------------|--------------|---------------|--------------|
| Consolidated Operating Results | | | | | |
| Profit before bad & doubtful debts provisions | 52.0 | 113.2 | 33.3 | 43.4 | 77.4 |
| less: Bad & doubtful debts provisions | (27.7) | (27.2) | (17.4) | (81.3) | (21.3) |
| Profit/(loss) before taxation | 24.3 | 86.0 | 15.9 | (37.9) | 56.1 |
| less: Taxation | (1.0) | (3.0) | (1.1) | (1.4) | (10.8) |
| | 23.3 | 83.0 | 14.8 | (39.3) | 45.3 |
| less: Share of net loss of associated companies | (6.9) | – | – | – | – |
| less: Minority interest | (0.8) | (0.3) | (0.1) | 1.9 | (0.3) |
| Attributable profit/(loss) | 15.6 | 82.7 | 14.7 | (37.4) | 45.0 |
| Consolidated Balance Sheet | | | | | |
| Cash and bank balance | 837 | 1,701 | 1,152 | 960 | 898 |
| Investments | 1,021 | 149 | 236 | 361 | 69 |
| Loans and advances | 1,294 | 1,317 | 1,408 | 1,463 | 1,536 |
| Fixed assets | 180 | 168 | 134 | 133 | 133 |
| Debtors & other assets | 159 | 143 | 300 | 162 | 181 |
| Total assets | 3,491 | 3,478 | 3,230 | 3,079 | 2,817 |
| Deposits and balance from banks | 141 | 255 | 135 | 74 | 133 |
| Customers' deposits | 2,932 | 2,811 | 2,738 | 2,692 | 2,334 |
| Taxation | 8 | 11 | 9 | 8 | 1 |
| Other liabilities | 74 | 75 | 67 | 65 | 63 |
| Total liabilities | 3,155 | 3,152 | 2,949 | 2,839 | 2,531 |
| Share capital | 121 | 121 | 121 | 61 | 61 |
| Reserves | 128 | 133 | 135 | 138 | 142 |
| Retained profits | 77 | 63 | 17 | 33 | 73 |
| Shareholders' funds | 326 | 317 | 273 | 232 | 276 |
| Minority interest | 10 | 9 | 8 | 8 | 10 |
| Capital employed | 336 | 326 | 281 | 240 | 286 |
| Total liabilities and equities | 3,491 | 3,478 | 3,230 | 3,079 | 2,817 |

Financial Highlights

(all expressed in HK\$ Million)

| | 2001 | 2000 | Change % |
|-------------------------------------|-----------------|----------|----------|
| Consolidation | | | |
| Operating profit before provisions | 52.0 | 113.2 | -54.1% |
| Operating profit after provisions | 24.3 | 86.0 | -71.7% |
| Profit attributable to shareholders | 15.6 | 82.7 | -81.1% |
| At year-end:- | | | |
| Total assets | 3,491.1 | 3,477.4 | 0.4% |
| Shareholders' funds | 326.4 | 316.5 | 3.1% |
| Banking Business | | | |
| Net Interest income | 84.4 | 74.4 | 13.4% |
| Non-interest income | 80.9 | 84.9 | -4.7% |
| Non-interest income/total income | 48.4% | 53.3% | -9.2% |
| At year-end:- | | | |
| Loans and advances to customers | 1,257.9 | 1,260.1 | -0.2% |
| Customers' deposits | 2,924.5 | 2,792.0 | 4.7% |
| Loan to deposit ratio | 38.8% | 40.4% | -4.0% |
| Capital adequacy ratio | 14.7% | 15.5% | -5.2% |
| Share Broking Business | | | |
| Total value of transactions | 10,463.2 | 20,228.6 | -48.3% |
| Net interest income | 4.7 | 6.7 | -29.9% |
| Fee income | 33.2 | 66.1 | -49.8% |
| At year-end:- | | | |
| Margin accounts financing | 36.0 | 57.1 | -37.0% |
| General Insurance Business | | | |
| Net premiums written | 4.7 | N/A | N/A |
| Net underwriting income | 2.0 | N/A | N/A |

Year 2001

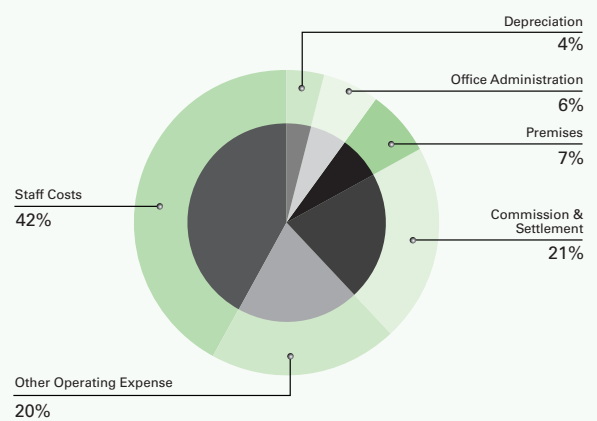
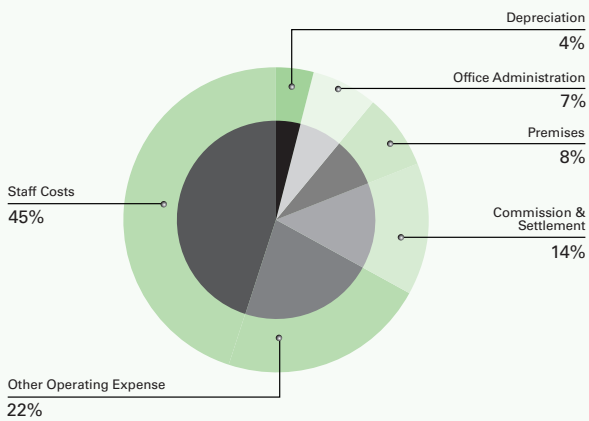
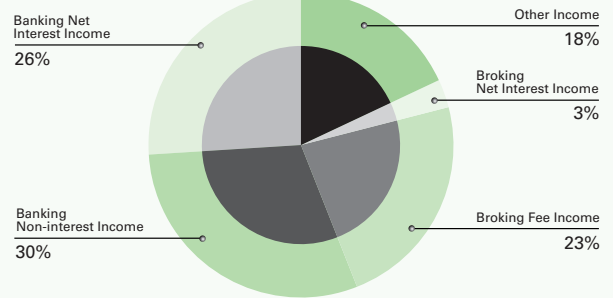
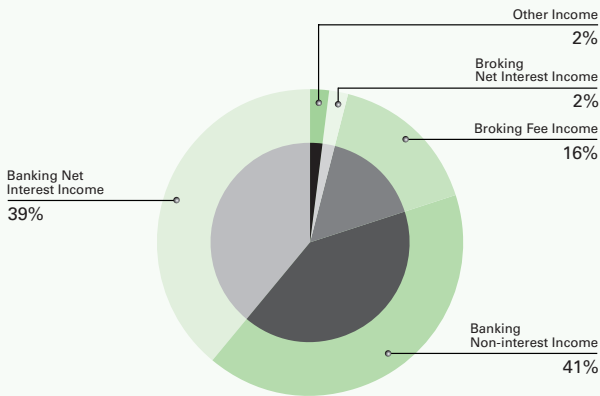
Year 2000

Group Income

Total HK\$ Million **214.2**

Group Income

Total HK\$ Million **284.6**



Group Expense

Total HK\$ Million **168.8**

Group Expense

Total HK\$ Million **171.4**

Message from the Chairman



Stanley Au
Group Chairman

2001 — A Year of Blessing in Disguise

The inevitable burst of the TMT (telecommunications-media-technology) bubble materialized in a dramatic form at the end of the first quarter of 2001, triggering an economic recession in the United States, which in turn spread to other countries. The terrorist attacks on the World Trade Center in Manhattan, New York and the Pentagon in Washington on September 11, which followed, served to further undermine business and consumer confidence throughout the world. The Hong Kong and Macau economies were seriously affected by these events. 2001 thus turned out to be a very difficult year for the banking and financial industries in this area, with challenges such as slow loan demand, narrower interest rate margins, deteriorating loan quality and bearish stock markets confronting the industry.

From our knowledge and experience of economic cycles, we could have well predicted how events would unfold

in 2001 because of excessive investments and asset price inflation in the major economies in the past decade. Therefore, we were confronted with a choice of the appropriate business strategies to be adopted to cope with such circumstances. The crucial choice was between the conventional defensive strategy of downsizing the company in the face of adversity and the bolder strategy of taking advantage of the retreat on the general economic front to position the company for the future. The logic of the latter is that it is less costly to capture larger market shares when business conditions deteriorate since the supply of professional talent increases and competitors shy away from opportunities. This, of course, raises the issue of balancing short-term and long-term strategic considerations.

Being a family owned organization, we were in the fortunate position of not being subject to the kind of pressures to protect shareholder value encountered by most public companies. Given our deep sense of social responsibility, we felt it was our obligation to assist the government in preventing unemployment from escalating during a severe downturn. Therefore, we decided to choose an offensive strategy to make the Delta Asia Financial Group a highly sales-driven organization and to lay the foundations for a sharp business recovery when the economic picture brightens.

In the course of 2001, we restructured our top management team by inviting investment banking veterans, Mr. Richard Leung and Dr. Miron Mushkat, to join the Group as a Vice Chairman (assuming the responsibilities of Deputy CEO & COO) and as an Executive Director (assuming the responsibilities of CFO & CIO), respectively. In the middle of the year, we acquired a general insurance company in Macau and

renamed it as Delta Asia Insurance Limited. Toward the end of the year, we added a Wealth Management Division to our Group. Thus, finally, we were able to start the process of transforming the nature of our business from commercial banking and stock broking alone into a comprehensive banking institution whose core businesses range from investment banking (including wealth management) to commercial banking (focusing on trade financing and small & medium enterprises loans), as well as insurance. We have, therefore taken the necessary initial steps to reconfigure ourselves eventually as a Bancassurance type of institution.

2001 — Business Results

During the year under review, we maintained the major items in our consolidated balance sheet in a manner broadly similar to the pattern witnessed in the preceding year. However, our operating profits were severely squeezed by much narrower interest rate margins for our loans due to very keen competition and much lower brokerage incomes due to a very sluggish Hong Kong stock market. At the same time, we added to our operating costs by investing heavily in staff and equipment, as well as information technology, in order to launch our Wealth Management business and an Internet portal consisting of four trading platforms, viz. *EXCELeStock*, *EXCELeFX*, *EXCELeTrade* and *EXCELeBank*. In addition, we poured substantial funds into the construction of the Banco Delta Asia headquarters.

Consequently, our net profit after tax decreased to HK\$23.3 million from that of HK\$82.98 in the previous year. Of course, special consideration has to be accorded to the fact that the year 2000 net profit included an item of non-recurrent investment income of HK\$54.89.

2002 — The Economic Outlook

During the year 2001, the U.S. Federal Reserve Board cut the Fed Fund rates by 11 times to a 40-year record low of 1.75%. The low interest rate level was effective in stimulating domestic consumer demand for new houses, motor cars, and durable goods, thus putting a brake on the U.S. economic slide by the end of the year. The first quarter of 2002 witnessed a strong rebound in the GDP growth rate to 5.8%. Overall, the U.S. economy is expected to expand at an annual rate of 2.6% for the whole of this year.

The economies of the 15 countries in the European Union have also recovered moderately in the first quarter of 2002 and, in the aggregate, the European Union is expected to show a GDP growth rate of 0.7%.

In Asia, the economic climate has improved generally since the turn of the year. Japan, the second largest economy in the world, is finally showing tentative signs of emerging from a decade long recession. The economic engine of the People's Republic of China is still progressing at a steady pace and is expected to easily reach the GDP growth target of about 7.5% this year due to strong domestic consumption, continued export growth and a large inflow of foreign direct investment.

Benefiting from the economic upturn in the U.S. and Europe, as well as the resilience of China's economy, Hong Kong exports are returning to positive territory this year. Although local retail sales remain weak, the domestic economy is underpinned by a large inflow of tourists, especially from China. Therefore, GDP growth is expected to accelerate from last year's 0.5% to a rate of about 3% this year.

Message from the Chairman *(continued)*

Likewise, the Macau economy is expected to expand at a faster rate in 2002 because of the SAR government's economic liberalization policies, and on the back of China's solid economic performance. A very encouraging sign this year is the fact that the number of tourists visiting Macau is likely to exceed the 10 million mark. Consequently, it would not be surprising to see an acceleration in Macau's GDP growth to 4% this year.

The Way Forward

We, at Delta Asia Financial Group, are certainly going to benefit from the stronger economic growth in the region. What are the elements needed to help a banking organization take off? Theoretically speaking, they should consist of the following:-

- Talented professionals who can satisfy all the customers' financial needs;
- State-of-the-art equipment and the most modern information technology facilities which can ensure significant productivity gains;
- The right strategies which are innovative and can identify market niches; and
- A visionary five-year plan which is feasible and shared by all the staff.

We believe that we do now possess all the above-mentioned elements that can catapult us to another stage of successful development. We are particularly satisfied with our five-year corporate plan which should eventually transform the Delta Asia Financial Group into a Bancassurance institution through such a process as mentioned hereunder:-

- Converting Delta Asia Credit Limited, Hong Kong into a fully licensed branch of Banco Delta Asia SARL, Macau;

- Establishing a network of representative offices and financial advisory offices in Tokyo, Taipei, Beijing, Shanghai, and Guangzhou;
- Adding a life insurance arm to the Group; and
- Listing Delta Asia Group (Holdings) Limited on the main board of the Hong Kong Stock Exchange.

We firmly believe the above-mentioned five-year plan can be implemented successfully and are, therefore, looking forward to our future with unqualified optimism.

A Note of Gratitude

I am particularly grateful to my colleagues at top management level and all my senior executives who have coherently worked to enable the Group to leap over all the hurdles which confronted us in the extremely difficult economic and business environment prevailing in 2001.

Of course, I have not forgotten our entire staff who have devoted themselves unreservedly to the Group. On behalf of all my colleagues in the Executive Committee and the members of our Board of Directors, I wish to convey to them my deepest gratitude.

Lastly, I want to express "many heartfelt thanks" to all my co-directors for the wise guidance and conceptual contributions they have showered me with during an exceptionally difficult period.

Stanley Au

Group Chairman

May, 2002

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31st December 2001.

Principal activities

The principal activity of the company is investment holding. The activities of its principal subsidiaries, which comprise banking, securities and futures broking, are set out in note 12 to the accounts. During the year, the company acquired a general insurance company in Macau through its subsidiary.

Results and appropriations

The results for the year are set out in the consolidated profit and loss account on page 18.

The directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the group and the company during the year are set out in note 19 to the accounts.

Donations

Charitable and other donations made by the group during the year amounted to HK\$479,000.

Fixed assets

Details of the movements in fixed assets of the group are set out in note 10 to the accounts.

Share capital

Details of the movements in share capital of the company are set out in note 18 to the accounts.

Directors

The directors who held office during the year and up to the date of this report were:

| | |
|-------------------------|---|
| AU Chong Kit, Stanley | <i>(Chairman)</i> |
| AU Wing Ngok | |
| CROCKETT David | |
| LAU Kai Hing | |
| LEUNG Chi Ping | |
| MAR Selwyn | |
| MUSHKAT Miron | |
| WEN Carson | |
| LEUNG Tim Chiu, Richard | (appointed on 16th November 2001) |
| LAU Siu Lun | (appointed on 16th November 2001) |
| BUCHMANN Urs | (appointed on 1st June 2001) |
| KHOO Boo Kheng, Terence | (appointed on 16th November 2001 and resigned on 1st February 2002) |

All directors retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Directors' interests in contracts

No contracts of significance in relation to the group's business to which the company or its subsidiaries was a party and in which a director of the company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Report of the Directors *(continued)*

Directors' interest in equity or debt securities

At no time during the year was the company or its subsidiaries a party to any arrangement to enable the directors of the company to acquire benefits by means of acquisition of shares in, or debentures of, the company or any other body corporate.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the company were entered into or existed during the year.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

AU Chong Kit, Stanley

Chairman

Hong Kong, 23rd May 2002

Report of the Auditors

To the Shareholders of Delta Asia Group (Holdings) Limited

(incorporated in Hong Kong with limited liability)

We have audited the accounts set out on pages 18 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts

are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the company and of the group as at 31st December 2001 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23rd May 2002

Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31ST DECEMBER 2001

| | Note | 2001 HK\$'000 | 2000 HK\$'000 |
|--|----------|------------------|------------------|
| Turnover | 2 | 274,704 | 351,848 |
| Other revenues | 2 | 41,645 | 95,489 |
| | | 316,349 | 447,337 |
| Interest on customers' deposits of banking operations | | (102,182) | (162,730) |
| Staff costs including directors' emoluments | | (76,505) | (71,858) |
| Provision for doubtful loans and advances | 3 | (27,699) | (27,181) |
| Commission and settlement costs | | (23,571) | (36,661) |
| Operating leases rental for land and buildings | | (13,929) | (12,259) |
| Office administration | | (10,737) | (10,667) |
| Communication | | (7,542) | (6,494) |
| Deficit on revaluation of leasehold land and buildings | | – | (5,959) |
| Other operating expenses | | (27,342) | (21,683) |
| | | (289,507) | (355,492) |
| Operating profit | 4 | 26,842 | 91,845 |
| Finance costs | 5 | (2,582) | (5,862) |
| Profit before taxation | | 24,260 | 85,983 |
| Taxation | 6(a) | (958) | (3,007) |
| Profit after taxation | | 23,302 | 82,976 |
| Share of net losses of associated companies | 13 | (6,881) | – |
| Minority interests | | (853) | (303) |
| Profit attributable to the shareholders | 7, 19(f) | 15,568 | 82,673 |

Consolidated Balance Sheet

AS AT 31ST DECEMBER 2001

| | Note | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------|------------------|------------------|
| ASSETS | | | |
| Non current assets | | | |
| Intangible assets | 9 | (2,183) | 156 |
| Fixed assets | 10 | 102,364 | 102,358 |
| Property under development | 11 | 77,801 | 65,901 |
| Investment in associated companies | 13 | 16,717 | 2,666 |
| Loans and advances | 14 | 598,901 | 445,520 |
| | | 793,600 | 616,601 |
| Current assets | | | |
| Bullion | | 22,249 | 5,573 |
| Loans and advances | 14 | 695,053 | 871,149 |
| Debtors, prepayments and other assets | | 111,190 | 113,802 |
| Non-trading securities | 15 | 13,452 | 44,091 |
| Trading securities | 16 | 963,166 | 58,153 |
| Cheques purchased | 17 | 10,302 | 20,750 |
| Placements with banks maturing over three months | | 68,273 | 250,000 |
| Treasury bills | | 44,660 | 46,602 |
| Cash and bank balances | 28 | 769,141 | 1,450,637 |
| | | 2,697,486 | 2,860,757 |
| Total assets | | 3,491,086 | 3,477,358 |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Share capital | 18 | 120,996 | 120,996 |
| Reserves | 19 | 205,430 | 195,488 |
| Shareholders' funds | | 326,426 | 316,484 |
| Minority interests | | 9,554 | 8,866 |
| Non-current liabilities | | | |
| Deferred taxation | 6(c) | 768 | 668 |
| Current liabilities | | | |
| Loans and balances due to banks and other financial institutions | 20 | 141,100 | 254,737 |
| Customers' deposits | | 2,932,192 | 2,811,424 |
| Amount due to a director | 21 | 1,019 | 1,019 |
| Creditors, accrued charges and other liabilities | | 71,564 | 73,115 |
| Taxation | 6(b) | 8,463 | 11,045 |
| | | 3,154,338 | 3,151,340 |
| Total equity and liabilities | | 3,491,086 | 3,477,358 |

AU Chong Kit, Stanley
Chairman

MUSHKAT Miron
Director

Balance Sheet

AS AT 31ST DECEMBER 2001

| | Note | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------|------------------|------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Investments in subsidiaries | 12 | 156,243 | 165,356 |
| Investment in an associated company | 13 | 13,932 | – |
| | | 170,175 | 165,356 |
| Current assets | | | |
| Interest receivable | | 2,447 | 1,538 |
| Cash and bank balances | | 174 | 60 |
| | | 2,621 | 1,598 |
| Total assets | | 172,796 | 166,954 |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| Share capital | 18 | 120,996 | 120,996 |
| Retained earnings | 19 | 50,504 | 44,412 |
| | | 171,500 | 165,408 |
| Current liabilities | | | |
| Amount due to a director | 21 | 1,019 | 1,019 |
| Creditors, accrued charges and other liabilities | | 277 | 527 |
| | | 1,296 | 1,546 |
| Total equity and liabilities | | 172,796 | 166,954 |

AU Chong Kit, Stanley
Chairman

MUSHKAT Miron
Director

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER 2001

| | Note | 2001 HK\$'000 | 2000 HK\$'000 |
|---|-------|------------------|------------------|
| Net cash (outflow)/inflow from operating activities | 22(a) | (504,043) | 143,693 |
| Returns on investments and servicing of finance | | | |
| Interest income from bank deposits | | 3,457 | 5,739 |
| Interest paid | | (2,582) | (5,862) |
| Dividends from unlisted equity securities | | 574 | 454 |
| Dividends paid | | – | (36,299) |
| Net cash inflow/(outflow) from returns on investments and servicing of finance | | 1,449 | (35,968) |
| Taxation | | | |
| Hong Kong profits tax paid | | (3,477) | (817) |
| Macau Complementary tax paid | | (146) | (244) |
| Total taxation paid | | (3,623) | (1,061) |
| Investing activities | | | |
| Purchase of fixed assets | | (10,983) | (6,304) |
| Purchase of a subsidiary | 22(c) | 2,812 | – |
| Payment of land premiums and construction cost | | (11,900) | (5,243) |
| Capital injection in an associated company | | – | (382) |
| Loan to an associated company | | (20,932) | – |
| Purchase of non-trading securities other than certificate of deposits | | – | (36,572) |
| Proceeds from disposal of non-trading securities other than certificate of deposits | | 24,021 | 54,887 |
| Net cash (outflow)/inflow from investing activities | | (16,982) | 6,386 |
| Net cash (outflow)/inflow before financing | | (523,199) | 113,050 |
| Financing | | | |
| Net cash inflow from financing | | – | – |
| (Decrease)/increase in cash and cash equivalents | | (523,199) | 113,050 |
| Cash and cash equivalents at 1st January | | 1,195,900 | 1,082,850 |
| Cash and cash equivalents at 31st December | | 672,701 | 1,195,900 |
| Analysis of balances of cash and cash equivalents: | | | |
| Cash and bank balances | | 769,141 | 1,450,637 |
| Treasury bills | | 44,660 | – |
| Bank loans and overdrafts | | (141,100) | (254,737) |
| | | 672,701 | 1,195,900 |

Consolidated Statement of Recognised Gains and Losses

FOR THE YEAR ENDED 31ST DECEMBER 2001

| | Note | 2001 HK\$'000 | 2000 HK\$'000 |
|---|-------|------------------|------------------|
| Gains and losses recognised directly in equity | | | |
| Revaluation deficit on investment properties | 19(b) | (4,000) | (2,501) |
| Revaluation (deficit)/surplus on leasehold land and buildings | 19(b) | (1,739) | 19,522 |
| Recognised gains arising from change in fair value of non-trading securities | 19(e) | 71 | – |
| Net (losses)/gains not recognised in the consolidated profit and loss account | | (5,668) | 17,021 |
| Profit for the year | | 15,568 | 82,673 |
| Less: Realisation of investment revaluation reserve upon disposal of non-trading securities to the consolidated profit and loss account | 19(e) | (123) | (19,348) |
| Total recognised gains and losses for the year | | 9,777 | 80,346 |

Notes to the Accounts

1. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention as modified by the revaluation of leasehold land and buildings, investment properties and investment in securities.

In the current year, the company has adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

| | | |
|-------------------|---|--|
| SSAP 9 (revised) | : | Events after the balance sheet date |
| SSAP 14 (revised) | : | Leases (effective for periods commencing on or after 1st July 2000) |
| SSAP 17 (revised) | : | Property, plant and equipment |
| SSAP 28 | : | Provisions, contingent liabilities and contingent assets |
| SSAP 29 | : | Intangible assets |
| SSAP 30 | : | Business combinations |
| SSAP 31 | : | Impairment of assets |
| SSAP 32 | : | Consolidated financial statements and accounting for investments in subsidiaries |

The effect of adopting these new standards are set out in the accounting policies below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the company and its subsidiaries made up to 31st December. Subsidiaries are those companies in which Delta Asia Group (Holdings) Limited, directly or indirectly, controls more than half of the voting power or holds more than half of the issued share capital or controls the composition of its board of directors.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the group are eliminated on consolidation. Where necessary, the accounting policies used by the subsidiaries have been changed to ensure consistency with the policies adopted by the group.

Notes to the Accounts *(continued)*

1. Principal accounting policies *(continued)*

(b) Group accounting *(continued)*

(i) Consolidation *(continued)*

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the group's share of its net assets together with any unamortised goodwill or negative goodwill which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the group's share of the results of associated companies for the year, and the consolidated balance sheet includes the group's share of the net assets of the associated companies.

In the company's balance sheet the investments in the associated companies are stated at cost less provision for impairment losses. The results of the associated companies are accounted for by the company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the group has incurred obligations or guaranteed obligations in respect of the associated company.

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date and the accounts of subsidiaries and associated companies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the consolidated profit and loss account.

1. Principal accounting policies *(continued)*

(c) Goodwill / negative goodwill

Goodwill, which represents the excess of cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiaries, is recognised as an asset and amortised on a straight line basis over its estimated useful economic life of ten years.

Negative goodwill represents the excess of the fair value of the group's share of the net assets acquired over the cost of acquisition.

Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill related to expectations of future losses and expenses that are identified in the group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the estimated remaining weighted average useful life of five years; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the income statement immediately.

(d) Revenue recognition

The principal activity of the company is investment holding. The activities of its principal subsidiaries, which comprise banking, securities and futures broking are set out in note 12 to the accounts.

Interest income from banking operations is recognised in the consolidated profit and loss account as it accrues, except in the case of doubtful debts where interest is credited to a suspense account which is netted in the consolidated balance sheet against the relevant balances.

Fee and commission income earned from trade finance and commercial banking activities are recognised up front when the services are rendered.

Commission income arising from the broking of securities, forward foreign exchange contracts, forward commodities contracts, equity index futures and equity options is recognised on the trade date.

Income from foreign exchange operations is recognised on the trade date.

Dividend income and insurance brokerage commission are recognised when the right to receive payment is established.

Interest income from non-banking operations is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Rental income is recognised in the period in which they are earned.

Other income is recognised on an accruals basis.

Notes to the Accounts *(continued)*

1. Principal accounting policies *(continued)*

(e) Provision for doubtful loans and advances

Provisions are made against specific loans and advances as and when the directors have doubts on the ultimate recoverability of principal or interest in full. Specific provision is made to reduce the carrying value of the asset, net of any collateral, to the expected net realisable value based on the directors' assessment of the potential losses on those identified loans and advances on a case-by-case basis. Where it is not possible to reliably estimate the loss, the group applies pre-determined provisioning levels to the unsecured portion of loans and advances based on the group's loan classification procedures.

The group internally classifies loans and advances into five categories: pass, special mention, substandard, doubtful and loss. The classification of loans and advances is largely based on an assessment of the borrower's capacity to repay and on the degree of doubt about the collectibility of interest and/or principal. One important indicator of collectibility is the period that payments of interest and/or principal have been overdue. A specific provision ranging from 20% to 100% is made against loans and advances where there is doubt about the collectibility of interest and/or principal.

In addition, amounts have been set aside as a general provision for doubtful debts. Both specific and general provisions are deducted from "Loans and advances" in the consolidated balance sheet.

When there is no realistic prospect of recovery, the outstanding debt is written off.

(f) Insurance operations

The underwriting results from the insurance operations are recognised on an annual accounting basis. Full provision is made for all outstanding claims including those incurred but not reported at the balance sheet date. The claims reserve is grouped under "Other liabilities" in the consolidated balance sheet.

Unearned premiums reserve represents that portion of premiums written which are related to periods of risk subsequent to the balance sheet date. They are computed on the gross premiums written less reinsurance premiums ceded during the year at the following rates:

| | |
|-----------------------------------|-----|
| Policy period of under one year | 10% |
| Policy period of one year or over | 30% |

The unearned premiums reserve is credited to an account grouped under "Other liabilities" in the balance sheet.

1. Principal accounting policies *(continued)*

(g) Forward foreign exchange transactions

Profits and losses on forward foreign exchange contracts, other than swap transactions, are calculated by comparing the amount which will be realised upon the maturity of the contracts with the amount which would be realised if the contracts had been closed out at forward rates prevailing at the year end. Profits and losses arising from this notional realisation are aggregated and are accounted for in the profit and loss account.

Premiums and discounts on foreign exchange swaps entered into as part of foreign deposit transactions are brought into account on a pro rata basis taking into account the difference between the contracted forward rates and the spot rates at the time when the contracts were entered into. The remaining profit and loss on these swap transactions is brought into account by comparing the contracted forward rates with the year end market rates for each contract taken on an aggregate basis.

(h) Property under development

Property under development is stated at cost less provision for impairment loss. Cost includes the cost of land, land premiums, development expenditure and other directly attributable costs relating to the acquisition and development of property. No depreciation is provided on property under development until the development is completed.

(i) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases in valuation are credited to the consolidated profit and loss account up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining period of the leases.

Upon the disposal of an investment property, the relevant portion of the properties revaluation reserve realised in respect of previous valuations is released from properties revaluation reserve to the consolidated profit and loss account.

Notes to the Accounts *(continued)*

1. Principal accounting policies *(continued)*

(i) Fixed assets *(continued)*

(ii) Leasehold land and buildings

Leasehold land and buildings are stated at fair value which is determined by the directors based on independent valuations which are performed every year. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. Each year, the directors review the carrying value of the other properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

(iii) Other fixed assets

Other tangible fixed assets are stated at cost less accumulated impairment losses and depreciation.

(iv) Depreciation

Leasehold land and buildings are depreciated over fifty years or the remaining lease period by equal annual instalments, whichever is shorter.

Other tangible fixed assets are depreciated at rates sufficient to write off their cost less impairment over their estimated useful lives to the group on a straight line basis. The principal annual rates used for this purpose are as follows:

| | |
|------------------------|--|
| Leasehold improvements | 10% or over the period of the lease whichever is shorter |
| Furniture and fixtures | 10%-15% |
| Computer equipment | 20% |
| Motor vehicles | 20% |

(v) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that leasehold land and buildings, furniture and equipment and motor vehicles are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

1. Principal accounting policies *(continued)*

(i) Fixed assets *(continued)*

(v) Impairment and gain or loss on sale *(continued)*

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the consolidated profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(vi) Cost of restoring and improving fixed assets

Major costs incurred in restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the group.

(j) Bullion

Bullion is stated in the consolidated balance sheet at market value.

Bullion forward contracts are valued at market rates ruling at the balance sheet date. The difference between the values at those rates and the contract prices is recognised in the consolidated profit and loss account.

(k) Investment in securities

(i) Non-trading securities

Non-trading securities include debt securities held for liquidity purposes and other debt and equity securities which are not held for trading purposes. Non-trading securities are stated at fair value on the balance sheet. Fair value represents the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction.

Changes in fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from investment revaluation reserve, is dealt with in the consolidated profit and loss account.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the consolidated profit and loss account.

Notes to the Accounts *(continued)*

1. Principal accounting policies *(continued)*

(k) Investment in securities *(continued)*

(ii) Trading securities

Trading securities are listed equity securities which were acquired for the purpose of generating a profit from short-term fluctuation in price and are stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the consolidated profit and loss account. Profits and losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts are recognised in the consolidated profit and loss account as they arise.

(l) Finance and operating leases

(i) Finance leases/hire purchase contracts

Leases that substantially transfer to the group all the risk and rewards of ownership of assets, other than legal title, are accounted for as finance leases. Where the group is a lessor under finance leases/hire purchase contracts, the amounts due under the leases, net of deduction of unearned income, are recognised as a receivable and are included in "Loans and advances".

Finance income implicit in rentals receivable is credited to the consolidated profit and loss account over the lease period so as to produce an approximately constant periodic rate of return on the net investment outstanding for each accounting period.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the consolidated profit and loss account on a straight line basis over the period of the lease.

(m) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent a liability or asset is expected to be payable or recoverable in the foreseeable future.

(n) Retirement benefits

Defined contribution schemes are provided for employees of the group. Financing generally comes from employer and employee contributions. Certain subsidiaries of the group are also registered to the Mandatory Provident Fund Schemes Authority in Hong Kong as participating employers.

1. Principal accounting policies *(continued)*

(n) Retirement benefits *(continued)*

The contributions to the defined contribution scheme of a subsidiary in Macau are deposited with that subsidiary and included in the consolidated balance sheet. The defined contribution scheme of other group companies is independent of the group and therefore their assets are not included in the consolidated balance sheet. Contributions to the scheme by the group and employees are calculated as a percentage of employees' basic salaries.

The retirement benefit scheme costs are charged to the consolidated profit and loss account in the year in which they are incurred.

(o) Provisions

In accordance with SSAP 28, provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with maturity of three months or less from the date of acquisition including cash and short term funds and balances with banks and other financial institutions.

Notes to the Accounts *(continued)*

2. Revenue and turnover

The group is principally engaged in banking, securities and futures broking services. During the year, the company acquired a general insurance company in Macau through its subsidiary. Revenues recognised during the year are as follows:

| | The group | |
|--|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Turnover | | |
| Interest income from banking operations (Note (a)) | 186,618 | 237,113 |
| Fees and commissions | 84,271 | 107,150 |
| Interest income from margin client accounts | 3,815 | 7,585 |
| | 274,704 | 351,848 |
| Other revenues | | |
| Income from foreign exchange operations | 11,170 | 11,356 |
| Net gain on trading securities | 13,086 | 4,858 |
| Net gain on financial instruments | 9,141 | 10,420 |
| Net gain on disposal of non-trading securities | | |
| – listed | – | 54,887 |
| – unlisted | 123 | 267 |
| Dividends from unlisted equity securities | 574 | 454 |
| Interest income from bank deposits | 3,457 | 5,739 |
| Net underwriting income from insurance operations | 1,952 | – |
| Rental income from investment properties | 23 | 463 |
| Surplus on revaluation of leasehold land and buildings | 391 | – |
| Other income | 1,728 | 7,045 |
| | 41,645 | 95,489 |
| Total revenues | 316,349 | 447,337 |

(a) Included in the balance is interest income from listed and unlisted investment in securities amounting to HK\$1,062,000 (2000: HK\$1,033,000) and HK\$13,658,000 (2000: HK\$9,967,000) respectively.

3. Provision for doubtful loans and advances

| | The group | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Provision for doubtful loans and advances | | |
| – Specific provision | 25,045 | 30,830 |
| – General provision charge/(written back) | 1,543 | (3,596) |
| Recoveries on loans previously written off | (1,235) | (441) |
| Bad debt written off | 2,346 | 388 |
| | 27,699 | 27,181 |

4. Operating profit

Operating profit is stated after charging the following:

| | The group | |
|----------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Charging | | |
| Auditors' remuneration | 1,635 | 1,924 |
| Depreciation of fixed assets | 6,547 | 5,962 |
| Amortisation of goodwill | 76 | 76 |
| Loss on disposal of fixed assets | 388 | 153 |

5. Finance costs

| | The group | |
|---|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Interest on bank loans and overdrafts wholly repayable within five years | 675 | 2,304 |
| Interest on client accounts | 1,907 | 3,558 |
| | 2,582 | 5,862 |

Notes to the Accounts *(continued)*

6. Taxation

- (a) The amount of taxation in the consolidated profit and loss account represents:

| | The group | |
|-----------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Hong Kong profits tax | | |
| – current | 701 | 3,253 |
| – overprovision in previous years | (15) | (406) |
| Macau Complementary tax | 172 | – |
| Deferred taxation (Note (c)) | 100 | 160 |
| | 958 | 3,007 |

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on estimated assessable profit for the year. Macau Complementary tax has been calculated on the estimated assessable profit for the year, less available tax losses where applicable, at the rate of taxation prevailing in Macau.

- (b) The amount of taxation in the consolidated balance sheet represents:

| | The group | |
|-----------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Hong Kong | 7,409 | 10,200 |
| Macau | 1,054 | 845 |
| | 8,463 | 11,045 |

- (c) The movements of deferred taxation in the consolidated balance sheet are as follows:

| | The group | |
|---|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| At 1st January | 668 | 508 |
| Charge to consolidated profit and loss account (Note (a)) | 100 | 160 |
| At 31st December | 768 | 668 |

The provision for deferred taxation liability is in respect of temporary timing differences arising from accelerated depreciation allowances on fixed assets of the company's subsidiaries in Hong Kong. There are no other material unprovided deferred tax liabilities.

The revaluation of the group's investment properties, leasehold land and buildings and non-trading securities does not constitute a timing difference for deferred taxation purpose.

7. Profit attributable to the shareholders

The profit attributable to the shareholders is dealt with in the accounts of the company to the extent of HK\$6,092,000 (2000: HK\$56,710,000).

8. Directors' remuneration

The aggregate amounts of the emoluments payable to directors of the company during the year are as follows:

| | The group | |
|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Fees | 552 | 971 |
| Other emoluments | 8,244 | 8,691 |
| | 8,796 | 9,662 |

9. Intangible asset

| | The group | | |
|--|----------------------------------|----------------------------------|-------------------------------|
| | Positive goodwill HK\$'000 | Negative goodwill HK\$'000 | Total goodwill HK\$'000 |
| Cost | | | |
| At 1st January 2001 | 767 | – | 767 |
| Addition through acquisition of a subsidiary | – | (2,263) | (2,263) |
| At 31st December 2001 | 767 | (2,263) | (1,496) |
| Amortisation | | | |
| At 1st January 2001 | 611 | – | 611 |
| Amortisation for the year | 76 | – | 76 |
| At 31st December 2001 | 687 | – | 687 |
| Net book value | | | |
| At 31st December 2001 | 80 | (2,263) | (2,183) |
| At 31st December 2000 | 156 | – | 156 |

Notes to the Accounts (continued)

10. Fixed assets

| | The group | | | |
|-----------------------------|--------------------------------------|--|---|-------------------|
| | Investment properties HK\$'000 | Leasehold land and buildings HK\$'000 | Leasehold improvements, furniture and fixtures, computer equipment and motor vehicles HK\$'000 | Total HK\$'000 |
| Cost/valuation | | | | |
| At cost | – | – | 73,987 | 73,987 |
| At valuation | 18,000 | 64,935 | – | 82,935 |
| At 1st January 2001 | 18,000 | 64,935 | 73,987 | 156,922 |
| Additions | – | – | 10,983 | 10,983 |
| Disposals | – | – | (7,223) | (7,223) |
| Acquisition of a subsidiary | – | 1,100 | 874 | 1,974 |
| Revaluation | (4,000) | (2,021) | – | (6,021) |
| At 31st December 2001 | 14,000 | 64,014 | 78,621 | 156,635 |
| Accumulated depreciation | | | | |
| At 1st January 2001 | – | 280 | 54,284 | 54,564 |
| Charge for the year | – | 992 | 5,555 | 6,547 |
| Disposals | – | – | (6,835) | (6,835) |
| Acquisition of a subsidiary | – | – | 847 | 847 |
| Revaluation | – | (852) | – | (852) |
| At 31st December 2001 | – | 420 | 53,851 | 54,271 |
| Net book value | | | | |
| At 31st December 2001 | 14,000 | 63,594 | 24,770 | 102,364 |
| At 31st December 2000 | 18,000 | 64,655 | 19,703 | 102,358 |

10. Fixed assets (continued)

The analysis of cost or valuation of the above assets is as follows:

| The group | | | | |
|----------------------------|---|--|---|---------------------------|
| | Investment properties HK\$'000 | Leasehold land and buildings HK\$'000 | Leasehold improvements, furniture and fixtures, computer equipment and motor vehicles HK\$'000 | Total HK\$'000 |
| At 31st December 2001 | | | | |
| At cost | – | – | 78,621 | 78,621 |
| At valuation | | | | |
| – 1998 (Note (a)) | – | 7,000 | – | 7,000 |
| – 2001 (Notes (b) and (c)) | 14,000 | 57,014 | – | 71,014 |
| | 14,000 | 64,014 | 78,621 | 156,635 |
| At 31st December 2000 | | | | |
| At cost | – | – | 73,987 | 73,987 |
| At valuation | | | | |
| – 1998 (Note (a)) | – | 7,000 | – | 7,000 |
| – 2000 (Notes (b) and (c)) | 18,000 | 57,935 | – | 75,935 |
| | 18,000 | 64,935 | 73,987 | 156,922 |

The net book value of the investment properties, leasehold land and buildings comprises:

| The group | | | | | |
|--------------------------|----------------------------------|-------------------------------------|----------------------------------|----------------------|-------------------|
| | Investment properties | Leasehold land and buildings | | | |
| | Outside Hong Kong HK\$'000 | Hong Kong HK\$'000 | Outside Hong Kong HK\$'000 | Subtotal HK\$'000 | Total HK\$'000 |
| At 31st December 2001 | | | | | |
| Period unexpired | | | | | |
| Medium term lease | | | | | |
| At valuation | – | 6,580 | 680 | 7,260 | 7,260 |
| Long term leases | | | | | |
| At valuation | 14,000 | – | 56,334 | 56,334 | 70,334 |
| | 14,000 | 6,580 | 57,014 | 63,594 | 77,594 |

Notes to the Accounts *(continued)*

10. Fixed assets *(continued)*

| The group | | | | | |
|--------------------------|----------------------------------|-------------------------------------|----------------------------------|----------------------|-------------------|
| | Investment properties | Leasehold land and buildings | | | |
| At 31st December 2000 | Outside Hong Kong HK\$'000 | Hong Kong HK\$'000 | Outside Hong Kong HK\$'000 | Subtotal HK\$'000 | Total HK\$'000 |
| Period unexpired | | | | | |
| Medium term lease | | | | | |
| At valuation | – | 6,720 | 680 | 7,400 | 7,400 |
| Long term leases | | | | | |
| At valuation | 18,000 | – | 57,255 | 57,255 | 75,255 |
| | 18,000 | 6,720 | 57,935 | 64,655 | 82,655 |

All valuations of investment properties, leasehold land and buildings were carried out by valuers independent of the group.

- (a) The valuation carried out in 1998 was performed by Chesterton Petty Limited, an independent professional qualified valuer, on the basis of open market value as at 31st December 1998. Based on the valuation assessed by Chesterton Petty Limited at 31st December 2001 and 31st December 2000, there was no material difference between the open market value and the net book value as at 31st December 2001 and 31st December 2000 respectively and no adjustments were therefore made to the properties revaluation reserve.
- (b) The valuation carried out in 2001 and 2000 were performed by Chesterton Petty Limited, an independent professional qualified valuer and A Cheong Land Investment Company Limited, an independent registered valuer on the basis of open market value as at 31st December 2001 and 31st December 2000 respectively.
- (c) The carrying amount of the leasehold land and building would have been HK\$51,221,000 (2000: HK\$48,116,000) had they been stated at cost less accumulated depreciation.
- (d) Included in leasehold land and buildings was a property acquired from a director with carrying value of HK\$24,972,000 as at 31st December 2001 (2000: HK\$26,286,000). The group has been granted the rights to rent, mortgage, and to complete a sales and purchase agreement via a power of attorney dated 24th March 2000. According to an external and independent solicitor, the power of attorney is only revocable with the consent of the group or if the grantor of the power of attorney has a fair motive for revocation.

11. Property under development

| | The group | |
|-------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Cost | | |
| At 1st January (Note (a)) | 65,901 | 60,658 |
| Payment of land premiums | – | 3,199 |
| Other direct costs (Note (b)) | 11,900 | 2,044 |
| At 31st December | 77,801 | 65,901 |

- (a) This represents the cost of a site of approximately HK\$28,818,000 (2000: HK\$28,818,000) and the land premium instalments of approximately HK\$35,039,000 (2000: HK\$31,840,000) made in the previous years and other direct costs of HK\$2,044,000 (2000: Nil). The site is situated in Macau which is under construction into a commercial building.
- (b) The construction to develop the site into a commercial building was commenced in September 2000. This represents the construction cost paid during the year.

12. Investments in subsidiaries

| | The company | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Unlisted shares, at cost (Note (a)) | 142,780 | 142,780 |
| Provision for impairment loss | (485) | (485) |
| | 142,295 | 142,295 |
| Loan to a subsidiary (Note (b)) | 13,840 | 13,840 |
| Dividends receivable from subsidiaries | 10,675 | 19,800 |
| Amounts due from subsidiaries (Note (c)) | 23 | 23 |
| Amounts due to subsidiaries (Note (c)) | (10,590) | (10,602) |
| | 156,243 | 165,356 |

- (a) Acquisition of a subsidiary

During the year, the banking subsidiary of the group acquired 100% of the share capital of Companhia de Seguros Delta Asia, S.A. (formerly known as Companhia de Seguros Forex, (Macau) S.A.) at a consideration of HK\$16,500,000. As the acquired subsidiary's total assets exceeded the consideration by HK\$2,263,000, the surplus was recorded as a negative goodwill (Note 9).

- (b) The loan is unsecured, interest bearing at prime rate minus 0.5% per annum and has no fixed term of repayment.

Notes to the Accounts *(continued)*

12. Investments in subsidiaries *(continued)*

(c) The amounts due are unsecured, interest free and have no fixed terms of repayments.

At 31st December 2001, the company held shares in the following subsidiaries:

| Name of subsidiary | Place of incorporation | Particulars of issued share capital | Percentage holding of ordinary shares | | Principal activities |
|--|------------------------|--|---------------------------------------|-----------|----------------------|
| | | | 2001 % | 2000 % | |
| Shares held directly: | | | | | |
| Banco Delta Asia S.A.R.L. | Macau | 1,825,000 ordinary shares of MOP100 each | 96.05 | 96.05 | Banking |
| Delta Asia Securities Limited | Hong Kong | 1,200,000 ordinary shares of HK\$10 each | 100.00 | 100.00 | Securities broking |
| Delta Asia Financial Futures Limited | Hong Kong | 5,500,000 ordinary shares of HK\$1 each | 100.00 | 100.00 | Futures broking |
| Delta Asia Nominee Services Limited* | Hong Kong | 2 ordinary shares of HK\$10 each | 100.00 | 100.00 | Nominees services |
| Delta Asia Investimentos Imboiliarios Limitada.* (Delta Asia Properties Limited) | Macau | 1,000 ordinary shares MOP10 each | 100.00 | 100.00 | Property investment |
| Delta Asia Insurance Agency Limited | Hong Kong | 2 ordinary shares of HK\$1 each | 100.00 | 100.00 | Insurance agency |
| Delta Asia Research Limited | Hong Kong | 50,000 ordinary shares of HK\$10 each | 100.00 | 100.00 | Research |
| Delta Asia Secretarial Services Limited | Hong Kong | 2 ordinary shares of HK\$10 each | 100.00 | 100.00 | Secretarial services |
| Delta Asia (Nominees) Limited | Hong Kong | 2 ordinary shares of HK\$1 each | 100.00 | 100.00 | Nominees services |
| Delta Asia Communications Limited | Hong Kong | 1,000 ordinary shares of HK\$10 each | 100.00 | 100.00 | Inactive |

12. Investments in subsidiaries (continued)

| Name of subsidiary | Place of incorporation | Particulars of issued share capital | Percentage holding of ordinary shares | | Principal activities |
|---|------------------------|--|---------------------------------------|-----------|---|
| | | | 2001 % | 2000 % | |
| Shares held directly: | | | | | |
| Delta Asia Finance Limited | Hong Kong | 1,000,000 ordinary shares of HK\$10 each | 100.00 | 100.00 | Inactive |
| Delta Asia Estates Limited | Hong Kong | 52,601 ordinary shares of HK\$10 each | 100.00 | 100.00 | Inactive |
| Delta Asia Unit Investment Limited* | Hong Kong | 1,000 ordinary shares of HK\$10 each | 100.00 | 100.00 | Inactive |
| Delta Asia Asset Management Limited | Hong Kong | 2 ordinary shares of HK\$1 each | 100.00 | 100.00 | Inactive |
| Agencia de Viagens Hang Sang Limitada* | Macau | 500 ordinary shares of MOP1,000 each | 100.00 | 100.00 | Inactive |
| BDA Insurance Agency Limited | Macau | 1,000 ordinary shares of MOP100 each | 100.00 | 100.00 | Inactive |
| Shares held indirectly: | | | | | |
| Delta Asia Credit Limited | Hong Kong | 4,000,000 ordinary shares of HK\$10 each | 96.05 | 96.05 | Deposit taking and general financial services |
| Companhia de Seguros Delta Asia, S. A. (formerly known as Companhia De Seguros Forex (Macau) S.A.) (Delta Asia Insurance Limited) | Macau | 150,000 ordinary shares of MOP100 each | 96.05 | – | General insurance |
| Companhia de Investimentos Manifica, Limitada* | Macau | 100,000 ordinary shares of MOP1 each | 100.00 | 100.00 | Dormant |

* Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 1.73% (2000: 3.33%) of the group's net assets.

Notes to the Accounts *(continued)*

13. Investment in associated companies

| | The group | | The company | |
|--|------------------|------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Unlisted shares, at cost (Note (b)) | 2,666 | 2,666 | – | – |
| Share of post-acquisition reserves | (6,881) | – | – | – |
| Share of net (liabilities)/assets | (4,215) | 2,666 | – | – |
| Loan to an associated company (Note (a)) | 20,932 | – | 20,932 | – |
| Provision | – | – | (7,000) | – |
| | 16,717 | 2,666 | 13,932 | – |

(a) The loan to an associated company is unsecured, interest free and has no fixed terms of repayment.

(b) At 31st December 2001, the group directly held shares in the following associated companies:

| Name of associate | Place of incorporation | Particulars of issued share capital | Percentage holding of ordinary shares | | Principal activities |
|------------------------------------|------------------------|---|---------------------------------------|-----------|----------------------|
| | | | 2001 % | 2000 % | |
| Shares held directly: | | | | | |
| SmarTone Delta Asia (BVI) Limited | British Virgin Islands | 28 (2000: 28) ordinary shares of HK\$1 each | 28 | 28 | Investment holding |
| Shares held indirectly: | | | | | |
| SmarTone Comunicacoes Movies, S.A. | Macau | 2,800 (2000: 2,800) ordinary shares of MOP 100 each | 28 | 28 | Tele-communications |
| Sun Delta Securities Limited | Hong Kong | 343,000 (2000: 343,000) ordinary shares of US\$1 each | 49 | 49 | Securities broking |

14. Loans and advances

| | The group | |
|---|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Gross loans and advances | 1,419,567 | 1,437,598 |
| Provision for doubtful loans and advances | | |
| – Specific provision | (109,117) | (105,976) |
| – General provision | (16,496) | (14,953) |
| | 1,293,954 | 1,316,669 |
| Less: amounts due within one year included under current assets | (695,053) | (871,149) |
| | 598,901 | 445,520 |

Movements in provisions for doubtful loans and advances are as follows:

| | The group | | |
|---|-----------------------------------|----------------------------------|-------------------|
| | Specific provision HK\$'000 | General provision HK\$'000 | Total HK\$'000 |
| Balance at 1st January 2000 | 117,317 | 18,599 | 135,916 |
| Charge to/(written back from) consolidated profit and loss account | 30,880 | (3,646) | 27,234 |
| Bad debts written off | (42,221) | – | (42,221) |
| Balance at 31st December 2000 | 105,976 | 14,953 | 120,929 |
| Charged to consolidated profit and loss account | 25,045 | 1,543 | 26,588 |
| Bad debts written off | (21,904) | – | (21,904) |
| Balance at 31st December 2001 | 109,117 | 16,496 | 125,613 |

Notes to the Accounts *(continued)*

14. Loans and advances *(continued)*

(a) Loans and advances include finance lease receivables and analysed as follows:

| | The group | |
|--|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Gross investment in finance leases, receivable: | | |
| Not later than one year | 25,610 | 16,082 |
| Later than one year and not later than five years | 10,662 | 12,549 |
| | 36,272 | 28,631 |
| Unearned future finance income on finance leases | (2,585) | (2,831) |
| Net investment in finance leases | 33,687 | 25,800 |
| The net investment in finance leases may be analysed as follows: | | |
| Not later than one year | 24,087 | 14,971 |
| Later than one year and not later than five years | 9,600 | 10,829 |
| | 33,687 | 25,800 |

No guaranteed residual value is included in the gross investment in finance leases as at 31st December 2001 and 2000.

The allowance for uncollectable finance receivables included in the provision for loan losses amounted to HK\$78,000 as at 31st December 2001 (2000: Nil).

15. Non-trading securities

| | The group | |
|----------------------------------|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Equity securities, at fair value | | |
| Listed shares in Hong Kong | 353 | 152 |
| Unlisted shares | 988 | 975 |
| | 1,341 | 1,127 |
| Debt securities, at fair value | | |
| Listed bonds outside Hong Kong | – | 24,164 |
| Unlisted certificate of deposits | 12,111 | 18,800 |
| | 12,111 | 42,964 |
| | 13,452 | 44,091 |

16. Trading securities

| | The group | |
|----------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Equity securities, at fair value | | |
| – Listed in Hong Kong | 4,162 | 7,698 |
| Debt securities, at fair value | | |
| – Listed outside Hong Kong | 45,958 | 26,318 |
| – Unlisted | 913,046 | 24,137 |
| | 963,166 | 58,153 |

17. Cheques purchased

These represent bank drafts, travellers' cheques and cheques purchased from customers and are in the process of collection from overseas banks.

18. Share capital

| | The company | |
|---------------------------------------|---|----------|
| | Authorised Ordinary shares of HK\$10 each No. of shares | HK\$'000 |
| At 1st January and 31st December 2001 | 15,000,000 | 150,000 |

| | Issued and fully paid Ordinary shares of HK\$10 each No. of shares | | HK\$'000 |
|--|--|------------|----------|
| | At 1st January and 31st December 2001 | 12,099,633 | 120,996 |

Notes to the Accounts (continued)

19. Reserves

| | | The group | |
|-----|--|----------------|----------|
| | | 2001 | 2000 |
| | | HK\$'000 | HK\$'000 |
| (a) | Legal reserve (Note (i)) | | |
| | At 1st January | 29,563 | 29,048 |
| | Transfer from retained earnings | 2,105 | 515 |
| | At 31st December | 31,668 | 29,563 |
| (b) | Properties revaluation reserve | | |
| | Investment properties | | |
| | At 1st January | 11,174 | 13,675 |
| | Deficit on revaluation | (4,000) | (2,501) |
| | | 7,174 | 11,174 |
| | Leasehold land and buildings | | |
| | At 1st January | 29,547 | 10,025 |
| | (Deficit)/surplus on revaluation | (1,574) | 19,522 |
| | At 31st December | 27,973 | 29,547 |
| | Total at 31st December | 35,147 | 40,721 |
| (c) | Capital reserve (Note (ii)) | | |
| | At 1st January and 31st December | 61,520 | 61,520 |
| (d) | Exchange fluctuation reserve | | |
| | At 1st January and 31st December | 399 | 399 |
| (e) | Investment revaluation reserve | | |
| | At 1st January | 144 | 19,492 |
| | Change in fair value of non-trading securities | 71 | – |
| | Reserve realised upon disposal of non-trading securities | (123) | (19,348) |
| | At 31st December | 92 | 144 |
| (f) | Retained earnings | | |
| | At 1st January | 63,141 | 17,282 |
| | Profit attributable to the shareholders | 15,568 | 82,673 |
| | Total available for appropriation | 78,709 | 99,955 |
| | Transfer to legal reserve | (2,105) | (515) |
| | Dividends (Note (iii)) | – | (36,299) |
| | At 31st December | 76,604 | 63,141 |
| | Total reserves | 205,430 | 195,488 |

19. Reserves (continued)

| | The company | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Retained earnings | | |
| At 1st January | 44,412 | 24,001 |
| Profit attributable to the shareholders (Note 7) | 6,092 | 56,710 |
| Dividends (Note (iii)) | – | (36,299) |
| At 31st December | 50,504 | 44,412 |

- (i) The amount consists of legal reserve of a banking subsidiary in Macau, Banco Delta Asia S.A.R.L. ("BDA") and a property investment subsidiary, Delta Asia Properties Limited ("DAP").

The legal reserve of BDA is a non-distributable reserve set aside from profits each year in accordance with Regime Juridico do Sistema Financiero (Financial System Act) in Macau, which provides that an amount of not less than 20% of BDA's profit after taxation shall be set aside each year until the reserve fund reaches 50% of BDA's issued share capital, and thereafter not less than 10% of that BDA's profit after taxation each year until the legal reserve is equal to that of BDA's issued share capital.

In 2001, HK\$2,105,000 (2000: HK\$515,000) was transferred to the legal reserve, based on BDA's profit after taxation for the year ended 31st December 2000, after the financial statements had been approved by the shareholders in the Annual General Meeting.

No transfer to the legal reserve was made in respect of DAP in 2001 (2000: Nil) as DAP has incurred losses for the years ended 31st December 2001 and 2000.

Delta Asia Insurance Limited ("DAI") is newly acquired by the group during the year. The transfer to legal reserve in respect of DAI will commence in 2002 for the group's share of post-acquisition profits in 2001.

- (ii) The capital reserve is a non-distributable reserve arising from consolidation. BDA issued ordinary shares by way of capitalisation of reserves and retained earnings in previous years.
- (iii) The dividends represented an interim dividend of HK\$3.00 per ordinary share paid in 2000.

20. Loans and balances due to banks and other financial institutions

| | The group | |
|---|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Wholly repayable within 5 years | | |
| Due to banks and other financial institutions (unsecured) | 129,671 | 245,913 |
| Bank loans and overdrafts (secured) - Notes (a) and (b) | 11,429 | 8,824 |
| | 141,100 | 254,737 |

Notes to the Accounts *(continued)*

20. Loans and balances due to banks and other financial institutions *(continued)*

- (a) At 31st December 2001, the bank loans and overdrafts amounting to HK\$5,008,000 (2000: HK\$3,000,000) are fully secured by marketable securities owned by margin clients and pledged to a subsidiary for margin financing purpose.
- (b) At 31st December 2001, the bank overdrafts amounting to HK\$6,421,000 (2000: HK\$5,824,000) is secured by a charge on a property of a subsidiary in Macau.

21. Amount due to a director

The amount due to a director is unsecured, interest free and repayable on demand.

22. Notes to consolidated cash flow statement

- (a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities:

| | The group | |
|---|------------------|-----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Operating profit | 26,842 | 91,845 |
| Provision for doubtful loans and advances | 28,934 | 27,181 |
| Depreciation | 6,547 | 5,962 |
| Amortization of goodwill | 76 | 76 |
| (Surplus)/deficit on revaluation of leasehold land and buildings | (391) | 5,959 |
| Loss on disposal of fixed assets | 388 | 153 |
| Gain on disposal of unlisted non-trading securities | (123) | (267) |
| Gain on disposal of listed non-trading investments | – | (54,887) |
| Dividends from unlisted equity securities | (574) | (454) |
| Interest income from bank deposits | (3,457) | (5,739) |
| Decrease in certificates of deposit maturing over three months | 6,689 | – |
| (Increase)/decrease in loans and advances | (6,219) | 106,136 |
| (Increase)/decrease in bullion | (16,676) | 29,455 |
| Decrease in debtors, prepayments and other assets | 3,417 | 118,091 |
| Increase in trading securities | (905,013) | (57,966) |
| Decrease/(increase) in cheques purchased | 10,448 | (16,248) |
| Decrease/(increase) in placements with banks maturing over three months | 181,727 | (212,985) |
| Decrease in treasury bills maturing over three months | 46,602 | 1,942 |
| Increase in customers' deposits | 120,768 | 73,040 |
| (Decrease)/increase in creditors, accrued charges and other liabilities | (4,028) | 32,399 |
| Net cash (outflow)/inflow from operating activities | (504,043) | 143,693 |

22. Notes to consolidated cash flow statement (continued)

(b) Purchase of a subsidiary

| | The group | |
|------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Net assets acquired | | |
| Fixed assets | 1,306 | – |
| Insurance debtors | 684 | – |
| Other receivables | 121 | – |
| Bank balances and cash | 19,312 | – |
| Insurance liabilities | (2,107) | – |
| Other liabilities | (370) | – |
| Taxation | (183) | – |
| | 18,763 | – |
| Negative goodwill | (2,263) | – |
| | 16,500 | – |
| Satisfied by cash | 16,500 | – |

The subsidiary acquired during the year contributed HK\$1,353,000 to the group's net operating cash flows and paid HK\$146,000 in respect of taxation and utilised HK\$3,883 for investing activities

(c) Analysis of the net inflow in respect of the purchase of a subsidiary:

| | The group | |
|--|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Cash consideration | 16,500 | – |
| Bank balances and cash | 19,312 | – |
| Net cash inflow in respect of the purchase of subsidiaries | 2,812 | – |

Notes to the Accounts *(continued)*

23. Loan to officer

Included in loans and advances are loans to officer made by a property investment subsidiary in Macau disclosed pursuant to section 161B(4a) of the Hong Kong Companies Ordinance is as follows:

| | |
|---|-----------------------|
| Name of the borrower | Au Chong Kit, Stanley |
| Position | Director |
| Terms of the loan | |
| – Interest rate | Prime rate |
| – Security | Nil |
| – Duration and repayment terms | Repayable on demand |
| Balance of relevant loan in respect of principal and interest | |
| – at 1st January 2001 | HK\$7,075,000 |
| – at 31st December 2001 | HK\$7,804,000 |
| Maximum balance outstanding during the year | HK\$7,804,000 |

24 Contingencies and credit related commitments

- (a) The company has issued corporate guarantees to the extent of HK\$193,591,000 (2000: HK\$283,777,000) in respect of banking facilities granted to its subsidiaries.
- (b) The following table provides a detailed breakdown of the contractual or notional amounts and the fair values of the group's derivative financial instruments outstanding at the year end.

| | Contract/ notional amount HK\$'000 | The group | |
|---------------------------------------|---|-----------------------------------|-------------------------|
| | | Fair values Assets HK\$'000 | Liabilities HK\$'000 |
| Year ended 31st December 2001 | | | |
| Forward foreign exchange contracts | 1,465,132 | 30,203 | (7,358) |
| Forward commodities contracts | 1,201 | – | (40) |
| Total derivative assets/(liabilities) | | 30,203 | (7,398) |
| Year ended 31st December 2000 | | | |
| Forward foreign exchange contracts | 1,104,054 | 21,390 | (7,488) |
| Forward commodities contracts | 4,177 | – | (54) |
| Total derivative assets/(liabilities) | | 21,390 | (7,542) |

24 Contingencies and credit related commitments *(continued)*

- (c) The following table indicates the contractual amounts of the group's off-balance sheet financial instruments that commit it to extend credit to customers.

| | The group | |
|---|------------------|----------|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Direct credit substitutes | 1,170 | 69,177 |
| Trade related contingencies | 19,282 | 73,968 |
| Commitments to extend credit: | | |
| – Original term to maturity of one year or less | 213,210 | 534,041 |
| | 233,662 | 677,186 |

These instruments include acceptances, letters of credit, guarantees and commitment to extend credit. The contractual amount represents the amounts at risk should the contract be fully drawn upon and the client default. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

- (d) There is a dispute between a subsidiary and its customer in relation to a fraudulent case amounting to approximately HK\$5.8 million (2000: HK\$5.8 million). It is in the opinion of its Board of Directors and its legal counsels that the subsidiary stands a very good chance to defend its case. No provision has been made in the accounts.

25. Capital commitments

At 31st December 2001, the group and the company had the following capital commitments:

| | The group | | The company | |
|--|------------------|----------|--------------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Capital expenditure: contracted but not provided for | 8,921 | 19,763 | – | – |

Notes to the Accounts *(continued)*

26. Operating lease commitments

At 31st December 2001, the future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

| | The group | |
|---|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Not later than one year | 11,838 | 10,189 |
| Later than one year and not later than five years | 6,661 | 15,102 |
| Over five years | 1,368 | 1,824 |
| | 19,867 | 27,115 |

27. Retirement benefit costs

During the year, the group had the following expenses resulting from the retirement scheme arrangements.

| | The group | |
|--------------------------------------|------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Pension costs recognised as expenses | 4,911 | 4,687 |

The group participates in two defined contribution schemes which cover the Hong Kong employees and Macau employees separately. Besides, certain subsidiaries of the group are also registered to the Mandatory Provident Fund Schemes Authority in Hong Kong as participating employers during the year.

The banking subsidiary in Macau participates in a scheme operated by the scheme's trustees who are elected by the subsidiary's employees annually. As at 31st December 2001, the scheme has placed deposits with the subsidiary of approximately HK\$8.3 million (2000: HK\$10.7 million). In Hong Kong, the company and other subsidiaries participate in a scheme operated by HSBC Life (International) Limited effective from September 1995.

Under both schemes, the group is required to make contributions at the rate ranging from 8% to 15% of the standard monthly salaries. The staff are entitled to the total contributions upon retirement. Forfeited contributions as a result of resignation before retirement are utilised by the group to reduce the existing level of contributions.

28. Cash and bank balances

According to the statutory requirement, the Company is required to maintain a minimum deposit balance with the Macau S.A.R. Banking Regulator Monetary Authority of Macau ("AMCM") for liquidity purpose. The required weekly average of the MOP current deposit balance should not be less than 70% of the aggregate of the following amount:-

- (a) 3% on all the liabilities which are repayable on demand;

28. Cash and bank balances *(continued)*

- (b) 2% on all the liabilities which are repayable within 3 months (3 months inclusive) except for those already counted in (a);
- (c) 1% on all the liabilities which are repayable beyond 3 months.

As at 31st December 2001, HK\$38,582,000 (2000: HK\$38,616,000) was placed with AMCM for this purpose.

29. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operating decisions.

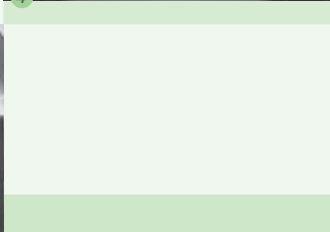
The following is a summary of significant transactions entered into with related parties that include directors, key management, close members of such individuals and companies controlled or significantly influenced by them in addition to those disclosed in notes 8, 12, 13, 20, 21 and 23, which were carried out in the normal course of the group's business.

| | 2001 | 2000 |
|---|-----------------|-------------|
| | HK\$'000 | HK\$'000 |
| Loans | | |
| Outstanding at beginning of year | 3,232 | 3,432 |
| Reclassification | (2,188) | – |
| Loans repaid during the year | (1,044) | (200) |
| | <hr/> | <hr/> |
| Outstanding as at end of year | – | 3,232 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Interest income | 30 | 278 |
| | <hr/> <hr/> | <hr/> <hr/> |
| No provision have been recognised in respect of loans given to related parties (2000: Nil). | | |
| Deposits | | |
| Outstanding at beginning of year | 453 | 4,787 |
| Deposits received during the year | 16,614 | 586 |
| Deposits paid during the year | (13,524) | (4,920) |
| | <hr/> | <hr/> |
| Outstanding as at end of year | 3,543 | 453 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Interest expense | 105 | 50 |
| | <hr/> <hr/> | <hr/> <hr/> |

30. Approval of accounts

The accounts were approved by the directors on 23rd May 2002.

Management Office and Branch Network



1. Macau Management Office
 Centro Comercial Yang Cheng,
 Bloco G & H, 9 Andar,
 Avenida Doutor Mario Soares,
 Macau
 Tel: (853) 7969600
 Fax: (853) 7969624

2. The Bank Centre Branch
 Rua do Campo No. 39e41,
 Macau
 Tel: (853) 368838
 Fax: (853) 3962001
 (To open at the end of 2002)

3. Outubro Branch
 No. 119C,
 Rua Cinco de Outubro,
 Macau
 Tel: (853) 922625
 Fax: (853) 922614

4. Securities and Investment Department
 No.75,
 Rue da Praia Grande,
 17 Andar, Edif.
 Centro Commercial Si Toi,
 Macau
 Tel: (853) 518461
 Fax: (853) 518474

5. Lisboa Branch
 Loja No 61,
 Hotel Lisboa,
 Macau
 Tel: (853) 388650
 Fax: (853) 344624

6. Antonio Branch
 No. 2C,
 Rua do Padre Antonio,
 Macau
 Tel: (853) 371809
 Fax: (853) 568109

Macau



7



8



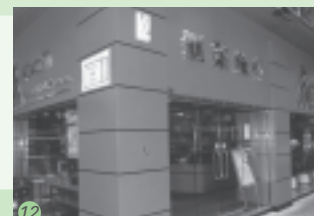
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11



9



12

7. Administrative Centre

No.79, Avenida Conselheiro
Ferreira de Almeida,
Macau
Tel: (853) 559898
Fax: (853) 570068

8. Barca Branch

No. 56,
Rua da Barca,
Macau
Tel: (853) 372585
Fax: (853) 371791

10. Almeida Branch

No. 356,
Avenida de Almeida Ribeiro,
Macau
Tel: (853) 921022
Fax: (853) 921545

11. Iao Hon Branch

27-29A,
r/c do Centro Comercial
"Wong Kam",
Bairro Iao Hon,
Avenida da Longevidade,
Macau
Tel: (853) 416738
Fax: (853) 416736

9. Airport Service Centre

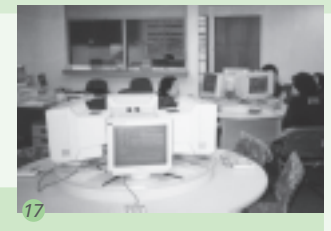
Shop No. 6,
Departure Hall,
Macau International Airport
Tel: (853) 861444
Fax: (853) 861440

12. Amaral Branch

R/C 125-127
Estrada de Coelho do Amaral,
Macau
Tel: (853) 371652
Fax: (853) 371807

Macau

Management Office and Branch Network



13. Hong Kong Head Office

31/F,
Jardine House,
Central,
Hong Kong
Tel: (852) 2533 0800
Fax: (852) 2810 4495

14. Tsimshatsui Branch

G23 Hankow Centre,
5-15 Hankow Road, Tsimshatsui,
Kowloon
Tel: (852) 2367 2095
Fax: (852) 2739 5431

16. Mongkok Branch

6/F,
Punfet Building,
701 Nathan Road,
Mongkok,
Kowloon
Tel: (852) 2396 1333
Fax: (852) 2397 6133

15. Central Office

M/F & 1/F,
Fortune House,
61 Connaught Road,
Central,
Hong Kong
Tel: (852) 2819 2288
Fax: (852) 2819 2299

17. Tsimshatsui Securities Broking Branch

Room 405,
Hankow Centre,
5-15 Hankow Road,
Tsimshatsui,
Kowloon
Tel: (852) 2724 2922
Fax: (852) 2723 8130

Hong Kong

18. Tokyo Representative Office

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Marunouchi Chiyoda-ku,
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