



2003 Annual Report

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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. Today, we have developed into a full services financial group, with focus on three core businesses, namely investment banking, 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

- Savings accounts and fixed-term deposits in local and foreign currencies
- Current accounts in local currency
- Multi-purpose accounts

Trade Financing

- Issuance of letters of credit
- Trust receipt financing
- Invoice 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
- Gold purchase loan
- Callable deposits trading

Commercial / Consumer Loans

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

Investment & Merchant Banking Services

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

Insurance Underwriting & Agency Services

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

Delta Asia Group (Holdings) Ltd.

Directors

AU Chong Kit, Stanley
AU Wing Ngok *
BOOTH Charles *
BUCHMANN Urs *
CROCKETT David *
KWAN Yuen Chiu, Paul *
LAU Kai Hing *
LAU Siu Lun, David
LEUNG Chi Ping, Michael *
MAR Selwyn *
MUSHKAT Miron
WEN Carson *
WONG Kai Fun, Kenneth

* Non-Executive Director

Senior Management Executives

AU Chong Kit, Stanley
Group Chairman
MUSHKAT Miron
Group Executive Director and Chief Financial Officer
LAU Siu Lun, David
Executive Director
WONG Kai Fun, Kenneth
Group Executive Director and Director of Operations

Banco Delta Asia S.A.R.L.

NG Chi Wai, Philip
Executive Director
WONG Kai Fun, Kenneth
Executive Director
LAI Chi Kin, Tony
Group Treasurer

Delta Asia Credit Limited

FUNG Kam Cheung, Jack
Executive Director and Chief Executive
Lau Siu Lun, David
Executive Director and Alternate Chief Executive
WONG Kai Fun, Kenneth
Executive Director and Director of Operations
LAI Chi Kin, Tony
Group Treasurer

Delta Asia Securities Limited

AU Chong Kit, Stanley
Deemed Responsible Officer
MUSHKAT Miron
Deemed Responsible Officer
YIM Kai Ming, Daniel
Operations Manager

Delta Asia Financial Futures Limited

DAI Kok Kwong
Deemed Responsible Officer

Delta Asia Insurance Limited

CHENG Kwok Choi, Johnny
Executive Director

Group Services

WONG Kai Fun, Kenneth
Director of Operations
LAU Siu Lun, David
Group Credit Controller
LAL, Baljinder
Director of Finance and Systems
TANG Fook Keung
Group Financial Controller
YAU Man Chi, Terence
Group Senior IT Manager
NGAI Chun Hung, Charles
Group Marketing Communications Manager
HUNG Lai Ping, Conita
Head of Equity Markets

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
Fairbairn Catley Low & Kong
43/F., Gloucester Tower, The Landmark, 11 Pedder Street, Hong Kong

Auditors

PricewaterhouseCoopers Certified Public Accountants
33/F, Cheung Kong Center, 2 Queen's Road, Central, Hong Kong

Mr. AU Chong Kit, Stanley

Mr. Au, 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 magazine '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, 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.

Mr. BOOTH, Charles*

Mr. Booth obtained his BA in history at Yale University and JD from Harvard Law School. He is a member of the New York and New Jersey Bars. He currently is an Associate Professor in the Faculty of Law at the University of Hong Kong, where he is also the Director of the Asian Institute of International Financial Law (AIIFL). Before moving to Hong Kong in 1989, Mr. Booth taught at the University of Hawaii School of Law and practiced law in New York.

Mr. Booth is a leading authority in the fields of comparative and cross-border insolvency law, Hong Kong insolvency law, and the development of insolvency infrastructures in Asia in the aftermath of the Asian financial crisis. He has authored or co-authored 1 book and more than 30 articles and book chapters that have appeared in journals and books in seven jurisdictions. He has been active in the public and private arenas, both in Hong Kong and in international settings, including as a consultant for the World Bank and the Asian Development Bank and as a member of The Law Reform Commission of Hong Kong Sub-Committee on Debt Collection and the Hong Kong Inland Revenue Board of Review.

Dr. BUCHMANN Urs*

Dr. Buchmann 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 both the Credit Suisse Banking as well as the Winterthur Insurance activities.

From 2000 to 2003, Dr. Buchmann also served as President of the Beijing Chapter of the Swiss-Chinese Chamber of Commerce. Moreover he is the Chairman of the Sino-Swiss Partnership Fund, the first ever Sino-Foreign private equity fund in China. Dr. Buchmann is Director of Winterthur Insurance Asia Ltd., as well as of several corporate boards in industry and finance in Asia.

Mr. CROCKETT, David*

Mr. Crockett 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.

Mr. KWAN Yuen Chiu, Paul*

Mr. Kwan 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 carries on his own practice as a Certified Public Accountant and conducts management consultancy services. He 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 Institute of Certified Public Accountants, the Taxation Institute of Hong Kong and the Hong Kong Institute of Company Secretaries, as well as a member of the Chartered Management Institute (United Kingdom) and British Computer Society.

Mr. LAU Siu Lun, David

Mr. Lau joined the Group in 1996 and is now the Credit Controller of the Group. 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*

Mr. Leung holds a Master Degree in Business Administration from the University of Hull in England, and is a Fellow of the Association of Chartered and Certified Accountants and an Associate member of the Institute of Chartered Secretaries and Administrators. He has served in the insurance industry for over 25 years.

Mr. MAR Selwyn*

Mr. Mar 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. Mushkat joined the Group as the Group Executive Director and Chief Financial Officer in February 2001. Prior to joining the Group, he was Global Head of Economics and Investment Strategy at Crédit Agricole Asset Management, the asset management arm of France's largest bank Crédit Agricole. He was previously Vice Chairman and Director of Economics & Investment Strategy at its Asian branch. Before joining Crédit Agricole Asset Management, Dr. Mushkat served as Managing Director and Chief Economist at Lehman Brothers Asia, Executive Director and Chief Economist at Baring Securities Asia, Professor at the University of Hong Kong, Professor at the Victoria University of Wellington in New Zealand and a Visiting Professor of leading universities in the Western Hemisphere. 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 and financial topics.

Mr. WEN Carson*

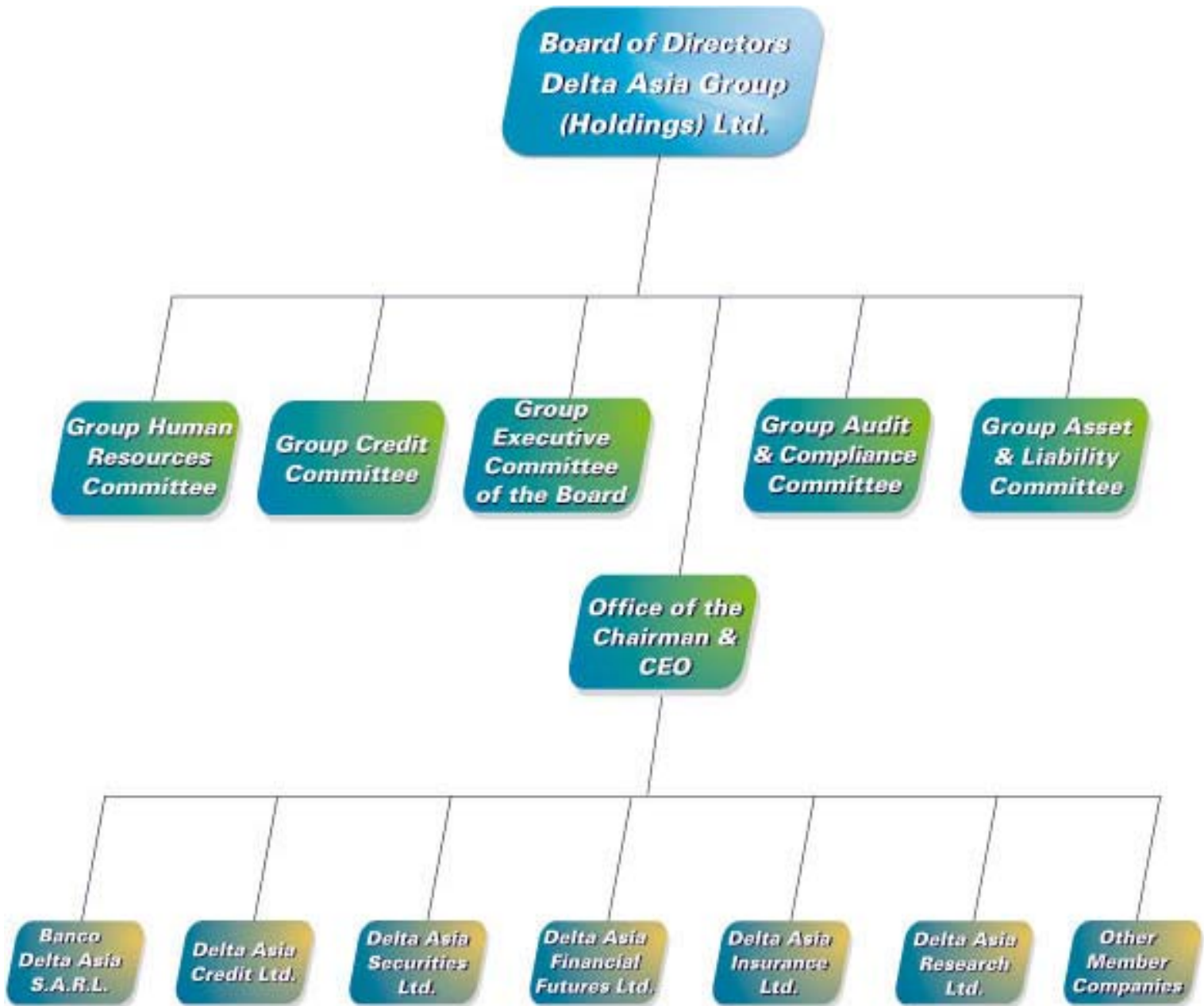
Mr. Wen has been a partner of Siao, Wen and Leung, Solicitors & Notaries for twenty years. He is a Deputy to the National People's Congress of PRC, a member of the Selection Committee for the First Government of the Hong Kong Special Administrative Region of the PRC and a China appointed Attesting Officer. 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.

Mr. WONG Kai Fun, Kenneth

Mr. Wong joined the Group as the Director of Group Operations in February 2004. For slightly over three decades, Mr. Wong held different senior positions in two American banks and one Japanese bank. Mr. Wong was designated Honorary Distinguished Citizen of the State of Washington U.S.A. in September 1983 for his friendly visit to the Evergreen State.

* Non-Executive Directors

Organisation Structure



Five Year Financial Summary

Insurance Services

(all expressed in HK\$ Million)

	2003	2002	2001	2000	1999
Consolidated Operating Results					
Profit before bad & doubtful debts provisions	62.7	32.3	52.0	113.2	33.3
less: Bad & doubtful debt provisions	(7.1)	(8.4)	(27.7)	(27.2)	(17.4)
Profit before taxation	55.6	23.9	24.3	86.0	15.9
less: Taxation	(6.4)	(4.3)	(1.0)	(3.0)	(1.1)
	49.2	19.6	23.3	83.0	14.8
less: Share of net profit / (loss) of associated companies	1.2	-	(6.9)	-	-
less: Minority interest	(1.5)	(0.6)	(0.8)	(0.3)	(0.1)
Profit attributable to shareholders	48.9	19.0	15.6	82.7	14.7
Consolidated Balance Sheet					
Cash and bank balances	1,056	1,464	837	1,701	1,152
Investments	823	322	1,021	149	236
Loans and trade bills	1,547	1,441	1,294	1,317	1,408
Fixed assets	215	192	180	168	134
Debtors & other assets	285	143	159	143	300
Total assets	3,926	3,562	3,491	3,478	3,230
Deposits and balance from banks	149	186	141	255	135
Customers' deposits	3,222	2,908	2,932	2,811	2,738
Taxation	15	12	8	11	9
Other liabilities	118	95	74	75	67
Total liabilities	3,504	3,201	3,155	3,152	2,949
Share capital	121	121	121	121	121
Reserves	183	170	128	133	135
Retained profits	106	60	77	63	17
Shareholders' funds	410	351	326	317	273
Minority interest	12	10	10	9	8
Capital employed	422	361	336	326	281
Total liabilities and equities	3,926	3,562	3,491	3,478	3,230

Financial Highlights

Commercial Banking

(All expressed in HK\$ Million)

	2003	2002	Change	Change %
For the year				
Net interest income	98.3	85.3	13.0	15.2%
Other operating income	101.8	83.3	18.5	22.2%
Operating profit before provisions	62.9	33.3	29.6	88.9%
Charge for bad and doubtful debts	7.1	8.4	-1.3	-15.5%
Operating profit after provisions	55.8	24.9	30.9	124.1%
Profit attributable to shareholders	48.9	19.1	29.8	156.0%
At year-end				
Loans and advances to customers	1,365.3	1,232.3	133.0	10.8%
Trade bills	181.6	209.2	-27.6	-13.2%
Customers' deposits	3,222.4	2,907.9	314.5	10.8%
Total assets	3,926.0	3,562.2	363.8	10.2%
Shareholders' funds	409.7	350.9	58.8	16.8%
Key ratios				
Non-interest income/total income	50.9%	49.4%	1.5%	3.0%
Returns on total average assets	1.3%	0.6%	0.7%	116.7%
Returns on average shareholders' funds	12.9%	5.7%	7.2%	126.3%
Loan to deposit ratio	43.8%	43.8%	0.0%	0.0%
Capital adequacy ratio	15.2%	15.1%	0.1%	0.8%

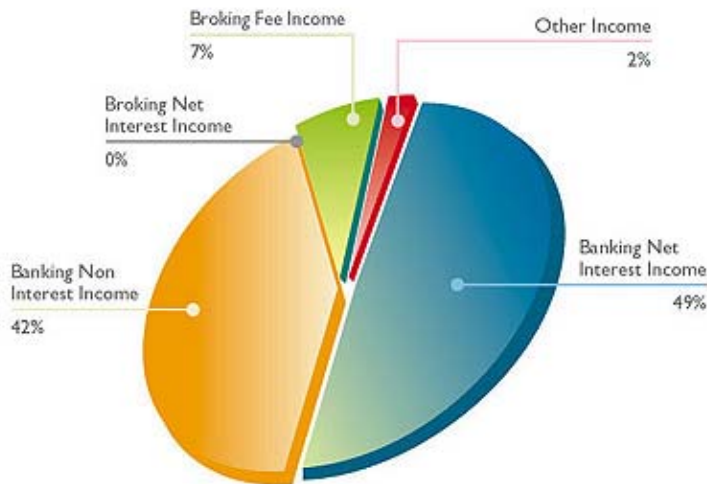
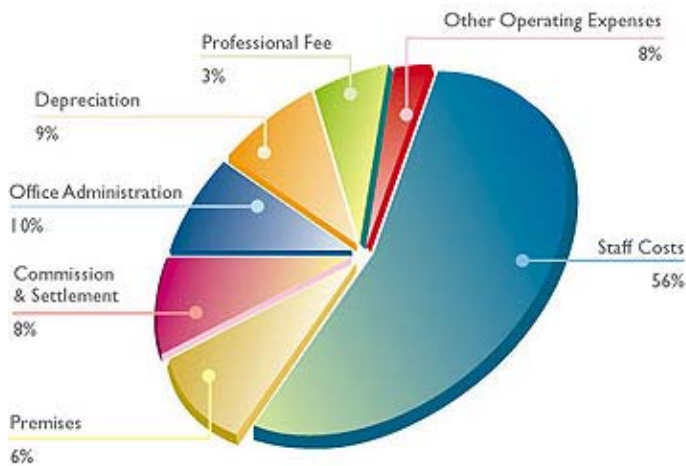
Financial Highlights

Commercial Banking

Year 2003

Group Operating Expense

Total HK\$'000 **137,139**



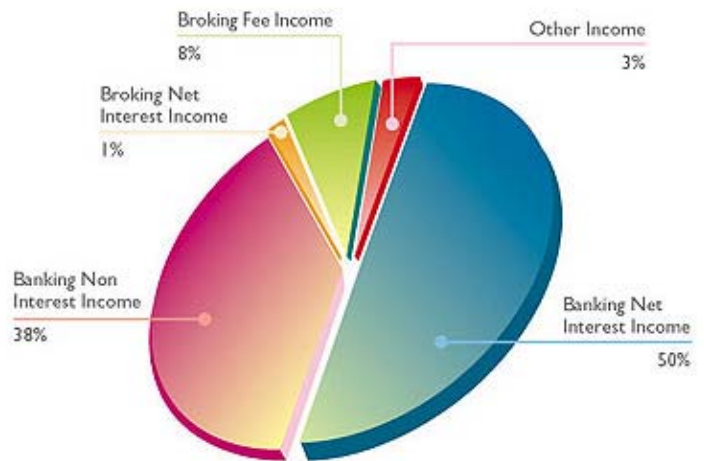
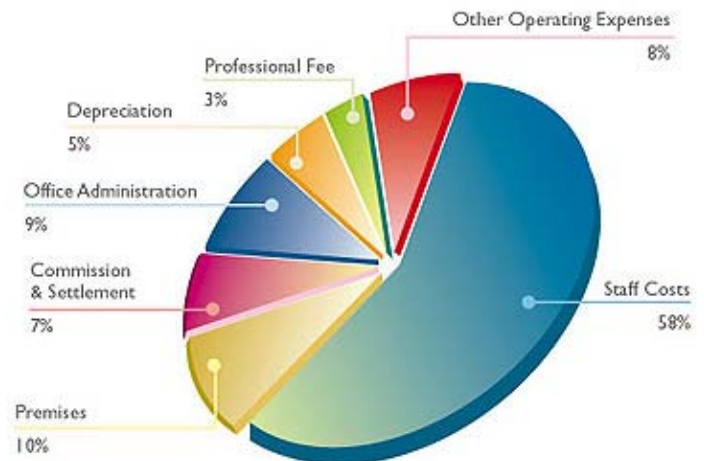
Group Operating Income

Total HK\$'000 **200,070**

Year 2002

Group Operating Expense

Total HK\$'000 **135,367**



Group Operating Income

Total HK\$'000 **168,673**

The directors submit their report together with the audited accounts for the year ended 31st December 2003.

Principal activities

The principal activity of the company is investment holding. The activities of its principal subsidiaries are set out in note 16 to the accounts.

Results and appropriations

The results for the year are set out in the consolidated profit and loss account on page 16.

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 the consolidated statement of changes in equity on page 19 and note 27 respectively.

Donations

Charitable and other donations made by the group during the year amounted to HK\$1,587,000.

Fixed assets

Details of the movements in fixed assets of the group are set out in note 19 to the accounts.

Directors

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

AU Chong Kit, Stanley	(Chairman)
MUSHKAT Miron	
LAU Siu Lun	
AU Wing Ngok	(Non-executive director)
CROCKETT David	(Non-executive director)
LAU Kai Hing	(Non-executive director)
LEUNG Chi Ping	(Non-executive director)
MAR Selwyn	(Non-executive director)
WEN Carson	(Non-executive director)
BUCHMANN Urs	(Non-executive director)
KWAN Yuen Chiu, Paul	(Non-executive director)
BOOTH Charles David	(Non-executive director) (appointed on 25th July 2003)
WONG Kai Fun	(appointed on 26th March 2004)
LEUNG Tim Chiu, Richard	(resigned on 21st March 2003)

All remaining 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.

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 the 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

Stanley Au

Chairman

Hong Kong, 25th May 2004

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 16 to 58 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 solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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, 25th May 2004

Consolidated Profit and Loss Account

Investment Banking

FOR THE YEAR ENDED 31ST DECEMBER 2003

	Note	2003 HK\$'000	As restated 2002 HK\$'000
Interest income	2	128,634	127,168
Interest expense		(30,317)	(41,819)
Net interest income		98,317	85,349
Other operating income	3	101,753	83,324
Operating income		200,070	168,673
Operating expenses	4	(137,139)	(135,367)
Operating profit before provisions		62,931	33,306
Charge for bad and doubtful debts	5	(7,093)	(8,422)
Operating profit after provisions		55,838	24,884
Loss on disposal of fixed assets		(233)	(988)
Profit on ordinary activities		55,605	23,896
Share of net profit of associated companies		1,220	85
Profit before taxation		56,825	23,981
Taxation	6(a)	(6,396)	(4,310)
Profit after taxation		50,429	19,671
Minority interests		(1,482)	(603)
Profit attributable to shareholders	7	48,947	19,068

The notes on page 21 to 58 form part of these accounts.

Consolidated Balance Sheet

Insurance Services

AS AT 31ST DECEMBER 2003

	Note	2003 HK\$'000	As restated 2002 HK\$'000
ASSETS			
Cash and short-term funds	9	1,036,781	1,391,062
Placements with banks and other financial institutions maturing between one and twelve months		18,601	72,436
Trade bills	10	181,584	209,181
Certificates of deposit held	11	35,819	1,507
Trading securities	12	287,395	250,056
Non-trading securities	13	41,042	21,015
Held-to-maturity securities	14	436,786	25,024
Loans and advances to customers	15	1,365,309	1,232,255
Interests in associated companies	17	22,312	23,873
Bullion inventory		74,573	22,168
Intangible assets	18	(1,357)	(1,810)
Fixed assets	19	214,758	192,231
Other assets	20	212,396	123,255
Total assets		<u>3,925,999</u>	<u>3,562,253</u>
LIABILITIES			
Deposits and balances of banks and other financial institutions	21	148,456	185,807
Deposits from customers	22	3,222,355	2,907,922
Other accounts and provisions	23	133,214	107,230
Total liabilities		<u>3,504,025</u>	<u>3,200,959</u>
CAPITAL AND RESERVES			
Share capital	26	120,996	120,996
Reserves		288,741	229,925
Shareholders' funds		<u>409,737</u>	<u>350,921</u>
Minority interests		12,237	10,373
Total capital resources		<u>421,974</u>	<u>361,294</u>
Total liabilities and capital resources		<u>3,925,999</u>	<u>3,562,253</u>

Stanley Au
Director

Miron Mushkat
Director

The notes on page 21 to 58 form part of these accounts.

Balance Sheet

Insurance Services

AS AT 31ST DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	16	167,743	167,735
Investment in an associated company	17	21,000	21,000
		<hr/>	<hr/>
		188,743	188,735
		-----	-----
Current assets			
Interest receivable		3,791	3,023
Cash and bank balances		335	285
		<hr/>	<hr/>
		4,126	3,308
		-----	-----
LIABILITIES			
Current liabilities			
Amount due to a director	25	1,019	1,019
Creditors, accrued charges and other liabilities		276	277
		<hr/>	<hr/>
		1,295	1,296
		-----	-----
Net current assets		2,831	2,012
		-----	-----
Total assets less current liabilities		<u>191,574</u>	<u>190,747</u>
Financed by:			
Share capital	26	120,996	120,996
Retained earnings	27(c)	70,578	69,751
		<hr/>	<hr/>
Shareholders' funds		<u>191,574</u>	<u>190,747</u>

Stanley Au
Director

Miron Mushkat
Director

The notes on page 21 to 58 form part of these accounts.

Consolidated Statement of Changes in Equity

Investment Banking

FOR THE YEAR ENDED 31ST DECEMBER 2003

	Share capital HK\$'000	Legal reserves HK\$'000	Investment properties revaluation reserve HK\$'000	Leasehold land & buildings revaluation reserve HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Investment revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
		(Note 27(a))		(Note 27(b))					
At 1st January 2002, as previously reported	120,996	31,668	7,174	27,973	61,520	399	92	76,604	326,426
Effect of adoption of SSAP 12 (Note 1(q))	-	-	-	(575)	-	-	-	963	388
At 1st January 2002, as restated	120,996	31,668	7,174	27,398	61,520	399	92	77,567	326,814
Net profit for the year	-	-	-	-	-	-	-	19,068	19,068
Revaluation of properties	-	-	-	5,852	-	-	-	-	5,852
Revaluation of investments	-	-	-	-	-	-	(813)	-	(813)
Capitalisation of reserves	-	-	-	-	33,000	-	-	(33,000)	-
Transfer to legal reserve	-	2,845	-	-	-	-	-	(2,845)	-
At 31st December 2002	<u>120,996</u>	<u>34,513</u>	<u>7,174</u>	<u>33,250</u>	<u>94,520</u>	<u>399</u>	<u>(721)</u>	<u>60,790</u>	<u>350,921</u>
Company and subsidiaries	120,996	34,513	7,174	33,250	94,520	399	(721)	67,583	357,714
Associated companies	-	-	-	-	-	-	-	(6,793)	(6,793)
	<u>120,996</u>	<u>34,513</u>	<u>7,174</u>	<u>33,250</u>	<u>94,520</u>	<u>399</u>	<u>(721)</u>	<u>60,790</u>	<u>350,921</u>
At 1st January 2003, as previously reported	120,996	34,513	7,174	33,825	94,520	399	(721)	60,187	350,893
Effect of adoption of SSAP 12 (Note 1(q))	-	-	-	(575)	-	-	-	603	28
At 1st January 2003, as restated	120,996	34,513	7,174	33,250	94,520	399	(721)	60,790	350,921
Net profit for the year	-	-	-	-	-	-	-	48,947	48,947
Revaluation of properties	-	-	-	3,536	-	-	-	-	3,536
Revaluation of investments	-	-	-	-	-	-	6,683	-	6,683
Transfer to legal reserve	-	3,818	-	-	-	-	-	(3,818)	-
Deferred taxation (Note 24)	-	-	-	(350)	-	-	-	-	(350)
At 31st December 2003	<u>120,996</u>	<u>38,331</u>	<u>7,174</u>	<u>36,436</u>	<u>94,520</u>	<u>399</u>	<u>5,962</u>	<u>105,919</u>	<u>409,737</u>
Company and subsidiaries	120,996	38,331	7,174	36,436	94,520	399	5,962	111,492	415,310
Associated companies	-	-	-	-	-	-	-	(5,573)	(5,573)
	<u>120,996</u>	<u>38,331</u>	<u>7,174</u>	<u>36,436</u>	<u>94,520</u>	<u>399</u>	<u>5,962</u>	<u>105,919</u>	<u>409,737</u>

The notes on page 21 to 58 form part of these accounts.

Consolidated Cash Flow Statement

Insurance Services

FOR THE YEAR ENDED 31ST DECEMBER 2003

	Note	2003 HK\$'000	2002 HK\$'000
Operating activities			
Net cash inflow from operations	28(a)	155,258	602,635
Investing activities			
Purchase of fixed assets		(31,008)	(15,060)
Proceeds from disposal of fixed assets		6	-
Payment of land premiums and construction cost		-	(2,442)
Loan to an associated company		-	(7,068)
Purchase of held-to-maturity securities		(414,524)	(25,024)
Purchase of non-trading securities		(23,144)	(20,487)
Proceeds from redemption of held-to-maturity securities		2,762	-
Proceeds from sale of non-trading securities		10,114	-
Net cash outflow from investing activities		(455,794)	(70,081)
(Decrease)/increase in cash and cash equivalents		(300,536)	532,554
Cash and cash equivalents at 1st January		1,205,255	672,701
Cash and cash equivalents at 31st December	28(b)	904,719	1,205,255

The notes on page 21 to 58 form part of these 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 except that, as disclosed in the accounting policies below, leasehold land and buildings, investment properties, certain investment in securities, bullion and off balance sheet financial instruments are stated at fair value.

In the current year, the company adopted Statement of Standard Accounting Practice No. 12 (“SSAP 12”) “Income Taxes” issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003. The accounting policies set out below have taken into account the adoption of this new standard.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of Delta Asia Group (Holdings) Limited (the “company”) and its subsidiaries (collectively referred to as the “group”) made up to 31st December. Subsidiaries are those companies in which the company, 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.

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.

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.

1 Principal accounting policies (*Continued*)

(b) Group accounting (*Continued*)

(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 net assets of the associated companies.

In the company's balance sheet the investment in an associated company is stated at cost less provision for impairment losses. The result of the associated company is 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 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. There is no exchange difference arising from consolidation of the accounts of subsidiaries and associated companies.

(c) Goodwill/negative goodwill

Goodwill, which represents the excess of the cost of an acquisition over the fair value of the group's share of 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 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 profit and loss over the estimated remaining weighted average useful life of those assets of five years; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

1 Principal accounting policies (*Continued*)

(d) Revenue recognition

Interest income from loans and advances is recognised in the profit and loss account on an accrual basis. Interest income is suspended when loans become doubtful of collection, such as overdue by more than 90 days, or, when the borrower or securities' issuer defaults, if earlier than 90 days. Such income is excluded from interest income until received. The suspended interest income is credited to a suspense account which is netted in the balance sheet against the relevant balances.

Interest income from bank deposits and debt securities is recognised in the profit and loss account on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Fee and commission income earned from trade finance and commercial banking activities are recognised 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 dealing in foreign exchange contracts is recognised on the trade date.

Dividend income is recognised when the right to receive payment is established.

Gross premiums written on policies are recognised when insurance policies are issued.

Operating lease rental income is recognised on a straight line basis.

(e) Advances to customers and other accounts

Advances to customers are reported on the balance sheet date at the principal amount outstanding net of provisions for bad and doubtful debts.

All advances are recognised when cash is advanced to borrowers.

(f) Provision for bad and doubtful debts

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.

1 Principal accounting policies (Continued)

(f) Provision for bad and doubtful debts (Continued)

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 to customers” in the consolidated balance sheet.

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

(g) Repossessed assets

Assets acquired by repossession of collateral for realisation continue to be reported as advances except those assets repossessed through public auction in Macau by the group’s banking subsidiary are booked under other assets. Provision is made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advances or other assets.

(h) 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 accounts and provisions” 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 accounts and provisions” in the consolidated balance sheet.

(i) Off-balance sheet financial instruments

Off-balance sheet financial instruments include derivatives, such as forwards futures, and other transactions undertaken by the group in the foreign exchange, interest rate and other markets. The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Derivative financial instruments other than those transacted to hedge risk are deemed to be held for trading purposes.

Transactions undertaken for trading purposes are re-measured to their fair value. Fair values are obtained periodically from quoted market prices. The gain or loss arising is recognised in the profit and loss account as “Net gain/(loss) from dealing in foreign exchange”.

Unrealised gains on trading derivatives which are marked to market are included in “Other assets”. Unrealised losses on transactions which are marked to market are included in “Other accounts and provisions”.

1 Principal accounting policies *(Continued)*

(i) Off-balance sheet financial instruments *(Continued)*

On the date a derivative contract is entered into, the group may designate certain derivative transactions as hedges. Derivatives are classified as a hedge when the following criteria are met:

- (i) formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship is prepared;
- (ii) the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- (iii) the hedge is effective on an on-going basis.

Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

If the derivative transaction no longer meets the criteria for a hedge set out above, the derivative is deemed to be held for trading purposes and is accounted for as set out above.

Derivative transactions are offset only when the group has the ability to insist on net settlement such as by means of entering into a master netting agreement or other legally enforceable arrangements. Any right to insist on a net settlement that is contingent is only taken into account when the group is able to enforce net settlement in all situations of default by the other party or parties including insolvency of any parties to the contract, and the ability to insist on a net settlement is assured beyond doubt.

Derivative transactions are not offset unless the related settlement currencies are the same, or are denominated in freely convertible currencies for which quoted exchange rates are available in an active market.

(j) Acceptances

Acceptances comprise undertakings by the group to pay bills of exchange drawn on customers. The group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities and commitments.

(k) 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.

1 Principal accounting policies (*Continued*)

(l) Treasury bills

Treasury bills are debt securities issued by the Macau S.A.R. Banking Regulator Monetary Authority of Macau (“AMCM”) and are held by a banking subsidiary for liquidity purposes. Treasury bills are stated at cost. Interest income is calculated with reference to the implicit discount rate of the relevant bills and is recognised on a time proportion basis until maturity. Deferred interest income is included in “Other accounts and provisions” in the consolidated balance sheet.

(m) 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 investment 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 investment properties revaluation reserve realised in respect of previous valuations is released from investment properties revaluation reserve to the consolidated profit and loss account.

(ii) Leasehold land and buildings

Leasehold land and buildings are stated at fair value which is determined by the directors based on independent valuations 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 leasehold land and buildings and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the leasehold land and buildings 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.

1 Principal accounting policies (*Continued*)

(m) Fixed assets (*Continued*)

(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, leasehold improvements, 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.

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.

(n) Certificates of deposits

Certificates of deposit are held for liquidity purposes and are stated at cost as adjusted for the amortisation of premiums or discounts on purchases over the period to maturity. Interest earned on certificates of deposit is reported as interest income. A reduction in carrying value is taken into account when it is considered to be impaired.

1 Principal accounting policies (*Continued*)

(o) Investment in securities

(i) Non-trading securities

Non-trading securities include equity securities and investment funds which are not held for trading purposes. Non-trading securities are stated at fair value on the balance sheet. Fair value represents the quoted market price for securities that are actively traded in a liquid market. For securities which are unlisted, fair value is obtained from external quotation agents.

Changes in fair value of non-trading 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.

(ii) Trading securities

Trading securities include equity, debt securities and investment funds which are either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit making exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair values based on quoted market prices. Fair value represents the quoted market price for securities that are actively traded in a liquid market. For securities which are unlisted, fair value is obtained from external quotation agents.

All related realised and unrealised gains and losses from trading in securities are reported in net gain on trading securities. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included separately in dividend income.

(iii) Held-to-maturity securities

Held-to-maturity securities are dated debt securities which management has the expressed intention and ability to hold to maturity. These securities are stated at cost adjusted for the amortisation of premiums or discounts on purchases over the period to maturity less provision for diminution in their values other than temporary. Provisions are made for the amount of the carrying value when there is an impaired loss and are recognised as an expense in the consolidated profit and loss account as they arise.

The amortisation of premiums and discounts arising on acquisition of dated debt securities is included as part of interest income. Gain or loss on realisation of held-to-maturity securities are accounted for in the consolidated profit and loss account as they arise.

1 Principal accounting policies (*Continued*)

(p) Finance and operating leases

(i) Finance leases/hire purchase contracts

Leases that substantially transfer to the group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at inception at the lower of the fair value of the leased assets or the present value of the minimum lease payments together with the obligation, excluding finance charges, to pay future rentals. Each lease payments is allocation between the finance charges and the reduction of the outstanding liability. Finance charges are debited to the profit and loss account so as to achieve an approximately constant rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in liabilities.

Where the group is a lessor under finance leases, the amounts due under the leases, net of unearned finance income, are recognised as a receivable and are included in “Loans and advances to customers”. Finance income implicit in rentals receivable is credited to the 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 lessor are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the lessor are charged to the consolidated profit and loss account on a straight-line basis over the lease period.

(q) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted in Macau and Hong Kong by the balance sheet date are used to determine deferred taxation of the Macau and Hong Kong entities respectively.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

In prior year, deferred taxation was 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 that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The accounting policy for deferred taxation has been changed during the year as stated above. The impact of the adoption of such accounting policy has been assessed retrospectively.

As detailed in the statement of changes in equity, opening retained earnings at 1st January 2002 and 2003 have been increased by HK\$963,000 and HK\$603,000, respectively which represent the previously unprovided net deferred tax assets. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December 2002 by HK\$752,000 and HK\$596,000 respectively. The profit for the year ended 31st December 2002 has been reduced by HK\$360,000.

1 Principal accounting policies *(Continued)*

(r) Employee benefits

(i) Pension obligations

Defined contribution schemes are provided for employees of the group. For the banking and insurance subsidiaries in Macau, the assets of the scheme are held under the name of a separate trustee - Banco Delta Asia Staff Provident Fund Trustee. Certain subsidiaries of the group are also registered to the Mandatory Provident Fund Schemes Authority in Hong Kong as participating employers. These retirement schemes are generally funded by payments from employees and by the respective companies in the group.

Part of the contributions to the Macau banking and insurance subsidiaries' defined contribution schemes are deposited with the banking subsidiary under the name of Banco Delta Asia Staff Provident Fund Trustee and included in "Deposits from customers" in the consolidated balance sheet. The defined contribution scheme of other group companies is independent of the group and therefore the assets are not included in the consolidated balance sheet.

The group's contributions to the mandatory provident fund scheme and defined contribution plan are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme or the plan prior to vesting fully in the contributions.

(ii) Bonus plan

Liabilities for bonus plan due wholly within twelve months after the balance sheet date are recognised when the group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(s) Provisions

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.

(t) 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, it will then be recognised as a provision.

1 Principal accounting policies *(Continued)*

(t) Contingent liabilities and contingent assets *(Continued)*

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.

A contingent asset is not recognised but is disclosed in the notes to the accounts, where necessary, when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(u) Cash and cash equivalents

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

2 Interest income

	2003 HK\$'000	2002 HK\$'000
Interest income from loans and advances to customers and other banking operations	104,614	109,421
Interest income on listed investments	8,168	7,641
Interest income on unlisted investments	15,755	8,567
Interest income from margin client accounts	97	1,539
	<u>128,634</u>	<u>127,168</u>

3 Other operating income

	2003 HK\$'000	2002 HK\$'000
Fees and commission income	75,651	59,135
Less: Fees and commission expense	(21,129)	(13,972)
	<hr/>	<hr/>
Net fees and commission income	54,522	45,163
Net gain from dealing in foreign exchange	26,687	17,119
Net gain on trading securities	10,337	9,190
Net gain on financial instruments	831	1,106
Net gain on disposal of non-trading securities	63	-
Dividends from equity securities		
- listed	541	186
- unlisted	1,482	2,226
Interest income from bank deposits	334	1,049
Net underwriting income from insurance operations	3,761	3,639
Rental income from investment properties	26	24
Other income	3,169	3,622
	<hr/>	<hr/>
	<u>101,753</u>	<u>83,324</u>

4 Operating expenses

	2003 HK\$'000	2002 HK\$'000
Staff costs including directors' emoluments (Note 8)	76,589	79,171
Operating leases rental for land and buildings	7,947	14,065
Office administration	14,404	11,495
Communication and settlement costs	10,803	9,635
Auditors' remuneration	1,555	1,690
Depreciation	11,901	6,446
Impairment loss on fixed assets	-	1,670
Amortisation of negative goodwill	(453)	(373)
Deficit on revaluation of leasehold land and buildings	8	-
Other operating expenses	14,385	11,568
	<hr/>	<hr/>
	<u>137,139</u>	<u>135,367</u>

5 Charge for bad and doubtful debts

	2003 HK\$'000	2002 HK\$'000
Charge for bad and doubtful debts		
- Specific provision	7,812	8,213
- General provision	1,245	2,282
Recoveries on loans previously written off	(1,964)	(2,073)
	<hr/>	<hr/>
Net charge to consolidated profit and loss account	<u>7,093</u>	<u>8,422</u>

6 Taxation

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

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on estimated assessable profit for the year. In 2003, the government of Hong Kong S.A.R. enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Macau Complementary tax has been calculated on the estimated assessable profit for the year at the rate of 15.75% (2002: 15.75%).

	2003 HK\$'000	As restated 2002 HK\$'000
Hong Kong profits tax		
- current	2,198	410
- under / (over) provision in previous years	77	(640)
Macau Complementary tax		
- current	5,546	4,409
- over provision in previous years	(295)	(79)
Deferred taxation relating to the origination and reversal of temporary differences	(1,132)	213
Deferred taxation resulting from an increase in tax rate	2	-
	<u>6,396</u>	<u>4,313</u>
Share of taxation attributable to an associated company arisen from over provision of taxation in prior year		
- Hong Kong profits tax	-	(3)
	<u>6,396</u>	<u>4,310</u>

- (b) The taxation on the group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows: -

	2003 HK\$'000	As restated 2002 HK\$'000
Profit before taxation	56,825	23,981
Calculated at a taxation rate of 17.5% (2002: 16%)	9,944	3,837
Effect of different taxation rate in Macau	(599)	(66)
Income not subject to taxation	(761)	(657)
Expenses not deductible for taxation purposes	574	795
Utilisation of previously unrecognised tax losses	(1,941)	-
Reversal of previously unrecognised temporary difference	2	(1)
Tax losses not recognised	-	1,100
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	2	-
Under provision in prior years	(218)	(719)
Share of taxation of associated company	-	(3)
Others	(607)	24
Taxation charge	<u>6,396</u>	<u>4,310</u>

6 Taxation (Continued)

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

	2003 HK\$'000	2002 HK\$'000
Hong Kong	8,426	6,755
Macau	6,410	5,236
	<u>14,836</u>	<u>11,991</u>

7 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the company to the extent of HK\$827,000 (2002: HK\$19,247,000).

8 Directors' emoluments

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

	The group	
	2003 HK\$'000	2002 HK\$'000
Fees	631	681
Other emoluments	7,499	11,161
	<u>8,130</u>	<u>11,842</u>

9 Cash and short-term funds

	The group	
	2003 HK\$'000	2002 HK\$'000
Cash and balances with banks and other financial institutions (Note (i))	385,872	256,018
Money at call and short notice	594,598	1,113,685
Treasury bills (Note (ii))	56,311	21,359
	<u>1,036,781</u>	<u>1,391,062</u>

Notes:

(i) According to the statutory requirement in Macau, the banking subsidiary in Macau is required to maintain a minimum deposit balance with the 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;
- (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 2003, HK\$44,442,000 (2002: HK\$40,059,000) was placed with the AMCM for this purpose.

9 Cash and short-term funds (Continued)

Notes:

(ii) An analysis of treasury bills held is as follows:

	The group	
	2003 HK\$'000	2002 HK\$'000
At cost:		
Treasury bills	56,311	21,359

Treasury bills are debt securities issued by the AMCM with original maturity terms of one month, three months or six months.

10 Trade bills

	The group	
	2003 HK\$'000	2002 HK\$'000
Trade bills	193,990	221,156
Provision for bad and doubtful debts		
- Specific provision	(9,679)	(8,814)
- General provision	(2,727)	(3,161)
	<u>181,584</u>	<u>209,181</u>

11 Certificates of deposit held

	The group	
	2003 HK\$'000	2002 HK\$'000
Held-to-maturity, at amortised cost:		
- Unlisted	35,819	1,507

12 Trading securities

	The group	
	2003 HK\$'000	2002 HK\$'000
Equity securities, at fair value		
- Listed in Hong Kong	2,062	797
- Listed outside Hong Kong	1,198	1,240
	<u>3,260</u>	<u>2,037</u>
Debt securities, at fair value		
- Listed in Hong Kong	6,783	-
- Listed outside Hong Kong	48,776	119,397
- Unlisted	158,054	79,781
	<u>213,613</u>	<u>199,178</u>
Unlisted investment funds, at fair value	70,522	48,841
	<u>287,395</u>	<u>250,056</u>
Trading securities are analysed by issuers as follows:		
- Central governments and central banks	1,147	18,544
- Public sector entities	1,429	132
- Banks and other financial institutions	151,403	89,120
- Corporate entities	62,894	93,419
- Others	70,522	48,841
	<u>287,395</u>	<u>250,056</u>

13 Non-trading securities

	The group	
	2003 HK\$'000	2002 HK\$'000
Equity securities, at fair value		
- Listed shares in Hong Kong	23,247	7,868
- Listed shares outside Hong Kong	1,926	1,672
- Unlisted shares	991	992
	<u>26,164</u>	<u>10,532</u>
Unlisted investment funds, at fair value	14,878	10,483
	<u>41,042</u>	<u>21,015</u>
Non-trading securities are analysed by issuers as follows:		
- Public sector entities	1,285	977
- Banks and other financial institutions	3,183	1,566
- Corporate entities	21,696	7,989
- Others	14,878	10,483
	<u>41,042</u>	<u>21,015</u>

14 Held-to-maturity securities

	The group	
	2003 HK\$'000	2002 HK\$'000
At amortised cost:		
Debt securities		
- Listed outside Hong Kong	126,670	18,405
- Unlisted	310,116	6,619
	<u>436,786</u>	<u>25,024</u>
Held-to-maturity securities are analysed by issuers as follows:		
- Banks and other financial institutions	387,207	21,059
- Corporate entities	49,579	3,965
	<u>436,786</u>	<u>25,024</u>

15 Loans and advances to customers

	The group	
	2003 HK\$'000	2002 HK\$'000
Gross loans and advances to customers	1,438,669	1,350,486
Provision for bad and doubtful debts		
- Specific provision	(56,064)	(102,614)
- General provision	(17,296)	(15,617)
	<u>1,365,309</u>	<u>1,232,255</u>

15 Loans and advances to customers (Continued)

Movements in provision for bad and doubtful debts are as follows:

	The group			Suspended Interest HK\$'000
	Specific provision HK\$'000	General provision HK\$'000	Total HK\$'000	
Balance at 1st January 2002	109,117	16,496	125,613	23,091
Charge to consolidated profit and loss account	6,140	2,282	8,422	-
Recoveries of advances previously written off	2,073	-	2,073	-
Amounts written off	(5,902)	-	(5,902)	(604)
Interest suspended during the year	-	-	-	10,132
Suspended interest recovered	-	-	-	(126)
Balance at 31st December 2002	111,428	18,778	130,206	32,493
Deducted from:				
- loans and advances to customers	102,614	15,617	118,231	
- trade bills	8,814	3,161	11,975	
	111,428	18,778	130,206	
Balance at 1st January 2003	111,428	18,778	130,206	32,493
Charge to consolidated profit and loss account	5,848	1,245	7,093	-
Recoveries of advances previously written off	1,964	-	1,964	-
Amounts written off	(53,497)	-	(53,497)	(18,922)
Interest suspended during the year	-	-	-	4,889
Suspended interest recovered	-	-	-	(191)
Balance at 31st December 2003	65,743	20,023	85,766	18,269
Deducted from:				
- loans and advances to customers	56,064	17,296	73,360	
- trade bills	9,679	2,727	12,406	
	65,743	20,023	85,766	

15 Loans and advances to customers *(Continued)*

(a) Non-performing loans are analysed as follows:

	Advances to customers	
	2003 HK\$'000	2002 HK\$'000
Non-performing loans	199,235	267,769
Percentage to total advances to customers	13.85%	19.83%
Specific provisions made in respect of such advances	55,044	101,896
Amount of interest in suspense	18,269	32,493

The above specific provisions were made after taking into account the value of collateral in respect of such advances.

(b) Loans and advances to customers include finance lease receivables and are analysed as follows:

	The group	
	2003 HK\$'000	2002 HK\$'000
Gross investment in finance leases, receivable:		
Not later than one year	6,605	9,987
Later than one year and not later than five years	78,236	30,579
Later than five years	414	-
	85,255	40,566
Unearned future finance income on finance leases	(6,917)	(3,420)
Net investment in finance leases	78,338	37,146

The net investment in finance leases may be analysed as follows:

Not later than one year	6,272	9,391
Later than one year and not later than five years	71,744	27,755
Later than five years	322	-
	78,338	37,146

No guaranteed residual value is included in the gross investment in finance leases as at 31st December 2003 and 2002.

The allowance for uncollectible finance receivables included in the provision for loan losses amounted to HK\$1,090,000 as at 31st December 2003 (2002: HK\$641,000).

16 Investments in subsidiaries

	The company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	162,198	162,198
Provision for impairment loss	(485)	(485)
	<u>161,713</u>	<u>161,713</u>
Loan to a subsidiary (Note (a))	16,588	16,588
Amounts due from subsidiaries (Note (b))	23	23
Amounts due to subsidiaries (Note (b))	(10,581)	(10,589)
	<u>167,743</u>	<u>167,735</u>

- (a) The loan is unsecured, interest bearing at prime rate minus 0.5% per annum and has no fixed term of repayment.
- (b) The amounts due are unsecured, interest free and have no fixed terms of repayments.

At 31st December 2003, the company held shares in the following subsidiaries:

Name of subsidiary	Place of incorporation	Number of issued ordinary share capital	Value per share	Percentage holding of ordinary shares %	Principal activities
<u>Shares held directly:</u>					
Banco Delta Asia S.A.R.L.	Macau	2,025,000	MOP100	96.43	Banking
Delta Asia Securities Limited	Hong Kong	1,200,000	HK\$10	100.00	Securities broking
Delta Asia Financial Futures Limited	Hong Kong	5,500,000	HK\$1	100.00	Futures broking
Delta Asia Nominee Services Limited #	Hong Kong	2	HK\$10	100.00	Nominees services
Delta Asia Investimentos Imobiliarios Limitada.# (also known as "Delta Asia Properties Limited")	Macau	1,000	MOP10	100.00	Property investment
Delta Asia Insurance Agency Limited	Hong Kong	2	HK\$1	100.00	Insurance agency
Delta Asia Research Limited	Hong Kong	50,000	HK\$10	100.00	Research
Delta Asia Secretarial Services Limited	Hong Kong	2	HK\$10	100.00	Secretarial services

16 Investments in subsidiaries (Continued)

Name of subsidiary	Place of incorporation	Number of issued ordinary share capital	Value per share	Percentage holding of ordinary shares %	Principal activities
<u>Shares held directly:</u>					
Delta Asia (Nominees) Limited	Hong Kong	2	HK\$1	100.00	Nominees services
Delta Asia Communications Limited	Hong Kong	1,000	HK\$10	100.00	Inactive
Delta Asia Finance Limited	Hong Kong	1,000,000	HK\$10	100.00	Inactive
Delta Asia Estates Limited	Hong Kong	52,601	HK\$10	100.00	Inactive
Delta Asia Unit Investment Limited #	Hong Kong	1,000	HK\$10	100.00	Inactive
Delta Asia Asset Management Limited	Hong Kong	2	HK\$1	100.00	Inactive
Agencia de Viagens Hang Sang Limitada #	Macau	500	MOP1,000	100.00	Inactive
BDA Insurance Agency Limited	Macau	1,000	MOP100	100.00	Inactive
<u>Shares held indirectly:</u>					
Delta Asia Credit Limited	Hong Kong	10,000,000	HK\$10	96.43	Deposit taking and general financial services
Companhia de Seguros Delta Asia, S. A. (also known as "Delta Asia Insurance Limited")	Macau	150,000	MOP100	96.43	General insurance
Companhia de Investimentos Manifica, Limitada #	Macau	100,000	MOP1	100.00	Dormant

Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 1.46% (2002: 1.47%) of the group's net assets.

17 Interests in associated companies

	The group		The company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost (Note (b))	2,666	2,666	-	-
Share of post-acquisition reserves	(5,573)	(6,793)	-	-
Share of net liabilities	(2,907)	(4,127)	-	-
Loan to an associated company (Note (a))	28,000	28,000	28,000	28,000
Amount due to an associated company	(2,781)	-	-	-
Provision	-	-	(7,000)	(7,000)
	<u>22,312</u>	<u>23,873</u>	<u>21,000</u>	<u>21,000</u>

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

(b) At 31st December 2003, the group held shares in the following associated companies:

Name of associated companies	Place of incorporation	Particulars of issued shares held	Percentage holding of ordinary shares	Principal activities
<u>Shares held directly:</u>				
SmarTone Delta Asia (BVI) Limited	British Virgin Islands	28 ordinary shares of HK\$1 each	28%	Investment holding
<u>Shares held indirectly:</u>				
SmarTone Comunicacoes Movies, S.A.	Macau	28,000 ordinary shares of MOP100 each	28%	Tele-communications
Sun Delta Securities Limited	Hong Kong	343,000 ordinary shares of US\$1 each	49%	Engaged in the provision of securities brokerage services until 1st August 2003 and remain inactive thereafter

18 Intangible assets

	The group		
	Positive goodwill HK\$'000	Negative goodwill HK\$'000	Total goodwill HK\$'000
Cost			
At 1st January and 31st December 2003	767	(2,263)	(1,496)
Accumulated amortisation			
At 1st January 2003	767	(453)	314
Amortisation for the year	-	(453)	(453)
At 31st December 2003	767	(906)	(139)
Net book value			
At 31st December 2003	-	(1,357)	(1,357)
At 31st December 2002	-	(1,810)	(1,810)

19 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	-	-	90,192	90,192
At valuation	14,000	147,275	-	161,275
At 1st January 2003	14,000	147,275	90,192	251,467
Additions	-	2,653	28,355	31,008
Disposals	-	-	(2,862)	(2,862)
Revaluation	-	928	-	928
At 31st December 2003	14,000	150,856	115,685	280,541
Accumulated depreciation and impairment				
At 1st January 2003	-	67	59,169	59,236
Charge for the year	-	2,664	9,237	11,901
Disposals	-	-	(2,623)	(2,623)
Revaluation	-	(2,731)	-	(2,731)
At 31st December 2003	-	-	65,783	65,783
Net book value				
At 31st December 2003	14,000	150,856	49,902	214,758
At 31st December 2002	14,000	147,208	31,023	192,231

19 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 2003				
At cost	-	-	115,685	115,685
At valuation				
- 2003 (Note (a) and (b))	14,000	150,856	-	164,856
	<u>14,000</u>	<u>150,856</u>	<u>115,685</u>	<u>280,541</u>
At 31st December 2002				
At cost	-	-	90,192	90,192
At valuation				
- 2002 (Note (a) and (b))	14,000	147,275	-	161,275
	<u>14,000</u>	<u>147,275</u>	<u>90,192</u>	<u>251,467</u>

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

	The group				
	Investment properties	Leasehold land and buildings			Total HK\$'000
	Outside Hong Kong HK\$'000	Hong Kong HK\$'000	Outside Hong Kong HK\$'000	Subtotal HK\$'000	
At 31st December 2003					
Medium term lease					
At valuation	-	8,000	730	8,730	8,730
Long term leases					
At valuation	14,000	-	142,126	142,126	156,126
	<u>14,000</u>	<u>8,000</u>	<u>142,856</u>	<u>150,856</u>	<u>164,856</u>
At 31st December 2002					
Medium term lease					
At valuation	-	6,500	680	7,180	7,180
Long term leases					
At valuation	14,000	-	140,028	140,028	154,028
	<u>14,000</u>	<u>6,500</u>	<u>140,708</u>	<u>147,208</u>	<u>161,208</u>

19 Fixed assets *(Continued)*

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

- (a) Both the valuation carried out in 2003 and 2002 were performed by Chesterton Petty Limited, an independent professional qualified valuer and A Cheong Land Investment Company Limited, an independent registered valuer in Macau, on the basis of open market value as at 31st December 2003 and 31st December 2002 respectively.
- (b) The carrying amount of the leasehold land and buildings would have been HK\$127,874,000 (2002: HK\$127,796,000) had they been stated at cost less accumulated depreciation.
- (c) Included in leasehold and buildings was a property acquired from a director with carrying value of HK\$24,223,000 as at 31st December 2003 (2002: HK\$24,223,000). The group has no legal title to this property and 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.
- (d) At 31st December 2003, the net book value of investment properties amounting to HK\$14,000,000 (2002: HK\$14,000,000) were pledged as security for the group's overdrafts.

20 Other assets

	The group	
	2003	2002
	HK\$'000	HK\$'000
Accounts receivable	78,717	12,557
Interest receivable	14,260	12,133
Properties under foreclosure	12,996	2,400
Cheques purchased (Note)	8,119	15,709
Deferred taxation (Note 24)	1,507	-
Prepayment, sundry deposits and other receivable	96,797	80,456
	212,396	123,255
	212,396	123,255

Note:

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

21 Deposits and balances of banks and other financial institutions

	The group	
	2003	2002
	HK\$'000	HK\$'000
Wholly repayable within 5 years		
Due to banks and other financial institutions (unsecured)	145,829	181,859
Bank loans and overdrafts (secured) - Notes (a) and (b)	2,627	3,948
	148,456	185,807
	148,456	185,807
(a) At 31st December 2003, there were no bank loans and overdrafts (2002: Nil) secured by marketable securities owned by margin clients and pledged to a subsidiary for margin financing purpose.		
(b) At 31st December 2003, the bank overdrafts amounting to HK\$2,627,000 (2002: HK\$3,948,000) is secured by a charge on a property of a subsidiary in Macau.		

22 Deposits from customers

	The group	
	2003	2002
	HK\$'000	HK\$'000
Demand deposits and current accounts	177,225	107,049
Savings deposits	1,116,965	649,793
Time, call and notice deposits	1,815,785	2,118,465
Margin deposits	96,020	20,617
Other deposits	16,360	11,998
	3,222,355	2,907,922
	3,222,355	2,907,922

23 Other accounts and provisions

	The group	
	2003	2002
	HK\$'000	HK\$'000
Amount due to a director (Note 25)	1,019	1,019
Accounts payable, accrued charges and other liabilities	116,039	93,627
Taxation (Note 6(c))	14,836	11,991
Deferred taxation (Note 24)	1,320	593
	133,214	107,230
	133,214	107,230

24 Deferred taxation

Deferred tax for the group is calculated in full on temporary differences under the liability method using a principal taxation rate of 15.75% (2002: 15.75%) for the Macau subsidiaries while a principal taxation rate of 17.5% (2002: 16%) is used by the Hong Kong subsidiaries.

The movement on the deferred tax assets and liabilities during the year is as follows:

	The group	
	2003 HK\$'000	As restated 2002 HK\$'000
At 1st January, as previously reported	621	768
Effect of adoption of SSAP 12	(28)	(388)
At 1st January, as restated	593	380
Deferred taxation (credited)/charged to profit and loss account (Note 6(a))	(1,130)	213
Taxation charged to revaluation reserve	350	-
At 31st December	(187)	593

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax liabilities	Accelerated tax depreciation		Premises revaluation		Unrealised gain on other investment		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January, as previously reported	749	768	-	-	-	-	749	768
Effect of adoption of SSAP 12	-	(252)	569	575	27	-	596	323
At 1st January, as restated	749	516	569	575	27	-	1,345	1,091
Charged/(credited) to profit and loss account	577	233	(7)	(6)	109	27	679	254
Charged to equity	-	-	350	-	-	-	350	-
At 31st December	1,326	749	912	569	136	27	2,374	1,345

24 Deferred taxation (Continued)

Deferred tax assets	Provisions		Tax losses		Impairment of assets		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
At 1st January, as previously reported	-	-	-	-	-	-	-	-
Effect of adoption of SSAP 12	752	711	-	-	-	-	752	711
At 1st January, as restated	752	711	-	-	-	-	752	711
Charged/(credited) to profit and loss account	419	41	1,200	-	190	-	1,809	41
At 31st December	1,171	752	1,200	-	190	-	2,561	752

The following amounts, determined after appropriate offsetting the balances of the entities within the group under the same tax jurisdiction, are included in "Other assets" and "Other accounts and provisions" respectively in the consolidated balance sheet:

	2003 HK\$'000	As restated 2002 HK\$'000
Deferred tax assets	1,507	-
Deferred tax liabilities	(1,320)	(593)
	187	(593)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The group has unrecognised tax losses of HK\$2,042,008 (2002: HK\$13,909,902) to carry forward against future taxable income.

25 Amount due to a director

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

26 Share capital

	The company	
	Ordinary shares of HK\$10 each No. of shares	HK\$'000
Authorised: At 1st January and 31st December 2003	15,000,000	150,000
Issued and fully paid: At 1st January and 31st December 2003	12,099,633	120,996

27 Reserves

(a) Legal reserves

The amount consists of legal reserves of a banking subsidiary in Macau, Banco Delta Asia S.A.R.L. (“BDA”), a general insurance subsidiary, Delta Asia Insurance Limited (“DAI”) 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 2003, HK\$3,544,000 (2002: HK\$2,728,000) was transferred to the legal reserve, based on BDA’s profit after taxation for the year ended 31st December 2002, after the accounts had been approved by the shareholders in the Annual General Meeting.

In 2003, HK\$274,000 (2002: HK\$117,000) was transferred to the legal reserve, based on DAI’s profit after taxation for the year ended 31st December 2002, after the accounts had been approved by the shareholders in the Annual General Meeting.

No transfer to the legal reserve was made in respect of DAP in 2003 (2002: Nil) as DAP has incurred losses for the year ended 31st December 2002.

(b) Capital reserve

The capital reserve is a non-distributable reserve which is comprised of the capitalisation of reserves and retained earnings of BDA in previous years and the capitalisation of retained earnings of the deposit-taking subsidiary, Delta Asia Credit Limited (“DAC”) as a result of its issuance of bonus shares in 2002.

(c) Retained earnings

	The company	
	2003	2002
	HK\$'000	HK\$'000
At 1st January	69,751	50,504
Profit attributable to shareholders (Note 7)	827	19,247
At 31st December	<u>70,578</u>	<u>69,751</u>

28 Notes to consolidated cash flow statement

(a) Reconciliation of operating profit after provision to net cash inflow from operating activities:

	The group	
	2003 HK\$'000	2002 HK\$'000
Operating profit after provision	55,838	24,884
Charge for bad and doubtful debts	7,093	8,422
Depreciation	11,901	6,446
Amortisation of negative goodwill	(453)	(373)
Deficit on revaluation of leasehold land and buildings	8	-
Impairment loss of fixed assets	-	1,670
Net gain on disposal of non-trading securities	(63)	-
Dividends from listed equity securities	(541)	(186)
Dividends from unlisted equity securities	(1,482)	(2,226)
Interest income from bank deposits	(334)	(1,049)
	<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities	71,967	37,588
Decrease in certificates of deposit held maturing beyond three months	507	10,604
Decrease/(increase) in trade bills	27,166	(87,757)
Increase in loans and advances to customers	(88,183)	(64,318)
Advances written off net of recoveries	(51,533)	(3,829)
(Increase)/decrease in bullion	(52,405)	81
(Increase)/decrease in debtors, prepayments and other assets	(87,956)	959
(Increase)/decrease in trading securities	(37,339)	713,110
Increase in amount due from an associated company	2,781	-
Decrease/(increase) in cash and short term funds with financial institutions maturing beyond three months	(31,719)	-
Decrease/(increase) in placements with banks and other financial institutions maturing beyond three months	67,129	(4,163)
Increase/(decrease) in deposits from customers	314,433	(24,270)
Increase in creditors, accrued charges and other liabilities	22,412	22,063
	<hr/>	<hr/>
Net cash inflow from operating activities	157,260	600,068
Hong Kong profits tax paid	(283)	(775)
Hong Kong profits tax refund	-	30
Macau complementary tax paid	(4,076)	(149)
Dividends from listed equity securities	541	186
Dividends from unlisted equity securities	1,482	2,226
Interest income from bank deposits	334	1,049
	<hr/>	<hr/>
Net cash inflow from operations	155,258	602,635

28 Notes to consolidated cash flow statement (*Continued*)

(b) Analysis of the balances of cash and cash equivalents

	The group	
	2003 HK\$'000	2002 HK\$'000
Cash and balances with banks and other financial institutions	374,475	256,018
Money at call and short notice with original maturity within three months	574,276	1,113,685
Placements with bank and other financial institutions with original maturity within three months	13,294	-
Treasury bills with original maturity within three months	56,311	21,359
Certificates of deposit with original maturity within three months	34,819	-
Deposits and balances of banks and other financial institutions with original maturity within three months	(145,829)	(181,859)
Bank overdrafts	(2,627)	(3,948)
	904,719	1,205,255
	904,719	1,205,255

29 Loan to officer

Included in loans and loans to officer made by a property investment subsidiary in Macau. Pursuant to section 161B(4a) of the Hong Kong Companies Ordinance, the disclosure 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 2003	HK\$8,315,000
- at 31st December 2003	HK\$8,624,000
Maximum balance outstanding during the year	HK\$8,624,000

30 Contingencies and credit related commitments

- (a) 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	
	2003	2002
	HK\$'000	HK\$'000
Direct credit substitutes	40,883	48,872
Transaction related contingencies	14,418	12,091
Trade related contingencies	211,779	200,626
Commitments to extend credit:		
- Original term to maturity of one year or less	668,430	539,000
	<u>935,510</u>	<u>800,589</u>

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.

(b) Derivatives

The following is an analysis of the aggregate notional amounts of each significant type of derivatives entered into by the group:

	2003			2002		
	Hedging	Trading	Total	Hedging	Trading	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts	-	2,644,981	2,644,981	-	713,589	713,589
Commodity contracts	-	1,863	1,863	-	146	146
Index future contracts	-	19,585	19,585	-	15,788	15,788
Equities options	-	880	880	-	750	750
Interest rate future contracts	-	69,876	69,876	-	-	-
	<u>-</u>	<u>2,737,185</u>	<u>2,737,185</u>	<u>-</u>	<u>730,273</u>	<u>730,273</u>

The group has proprietary positions in derivative financial instruments amounted to HK\$69.87 million as at 31st December 2003 (2002: Nil). Apart from that, the aggregate notional amount of trading positions disclosed above represent positions which arise from the execution of trade orders from customers and positions taken in order to hedge these transactions and the group's trading and held-to-maturity debt securities positions.

30 Contingencies and credit related commitments (*Continued*)

(b) Derivatives (*Continued*)

As at 31st December, the replacement costs and credit risk weighted amounts included in the above off-balance-sheet exposures after taking into account the effects of the group's bilateral netting arrangements, are as follows:

	2003		2002	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments	-	6,956	-	5,053
Exchange rate contracts	111	33	79	17
	<u>111</u>	<u>6,989</u>	<u>79</u>	<u>5,070</u>

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent the amounts at risk.

The credit risk weighted amounts are the amounts which have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking to market contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

(c) Pending litigation

There is a dispute between a banking subsidiary in Macau and its customer in relation to a fraudulent case amounting to approximately HK\$6.0 million (2002: HK\$6.0 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 accordingly.

(d) Corporate guarantee

The company has issued corporate guarantees to the extent of HK\$162,996,000 (2002: HK\$162,996,000) in respect of banking facilities granted to its subsidiaries.

31 Capital commitments

At 31st December 2003, the group had the following capital commitments:

	The group	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure for fixed assets:		
Contracted but not provided for	3,823	14,537

32 Operating lease commitments

At 31st December 2003, the future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	The group	
	2003	2002
	HK\$'000	HK\$'000
Not later than one year	7,812	7,278
Later than one year and not later than five years	28,337	27,609
Over five years	1,607	8,969
	<u>37,756</u>	<u>43,856</u>

33 Retirement benefit costs

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

	The group	
	2003	2002
	HK\$'000	HK\$'000
Pension costs recognised as expenses	3,658	4,916

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.

The banking and insurance subsidiaries in Macau participate in a scheme operated by the scheme's trustees who are elected by the subsidiaries' employees annually. As at 31st December 2003, the scheme has placed deposits with the banking subsidiary and included in the group's accounts of approximately HK\$0.6 million (2002: HK\$7.7 million). In Hong Kong, the company and other subsidiaries participate in a scheme operated by HSBC Life (International) Limited effective from September 1995. For the banking and insurance subsidiaries in Macau, the assets of which are held in a separate trustee – Banco Delta Asia Staff Provident Fund Trustee.

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.

34 Maturity profile

The maturity profile of assets and liabilities analysed by the remaining period as at 31 December to the contractual maturity dates is as follows:

	2003						Undatd HK\$'000	Total HK\$'000
	Repayable On demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000			
Assets								
Cash and short-term funds	442,183	594,598	-	-	-	-	1,036,781	
Placements with banks and other financial institutions	-	18,601	-	-	-	-	18,601	
Certificates of deposit held	-	34,819	-	1,000	-	-	35,819	
Debt securities included in:								
- Trading securities	-	466	83,409	66,682	32,654	-	183,211	
- Held-to-maturity securities	-	5,098	9,024	194,009	228,655	-	436,786	
Trade bills	19,733	134,907	5,647	-	-	33,703	193,990	
Cheques purchased	-	8,119	-	-	-	-	8,119	
Loans and advances to customers	142,343	345,863	175,785	319,657	189,620	265,401	1,438,669	
Liabilities								
Deposits and balances of banks and other financial institutions	148,456	-	-	-	-	-	148,456	
Deposits from customers	1,447,489	1,483,050	218,443	73,373	-	-	3,222,355	

34 Maturity profile (Continued)

The maturity profile of assets and liabilities analysed by the remaining period as at 31 December to the contractual maturity dates is as follows:

	2002 (As restated)						
	Repayable on demand HK\$'000	Three months or less HK\$'000	One year or less but over three months HK\$'000	Five years or less but over one year HK\$'000	Over five years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
Cash and short-term funds	277,377	1,113,685	-	-	-	-	1,391,062
Placements with banks and other financial institutions	-	26,341	46,095	-	-	-	72,436
Certificates of deposit held	-	-	-	1,507	-	-	1,507
Debt securities included in:							
- Trading securities	-	-	119,397	67,905	11,876	-	199,178
- Held-to-maturity securities	-	-	-	18,855	6,169	-	25,024
Trade bills	-	187,837	2,090	-	-	31,229	221,156
Cheques purchased	-	15,709	-	-	-	-	15,709
Loans and advances to customers	243,898	290,245	180,541	263,264	210,516	162,022	1,350,486
Liabilities							
Deposits and balances of banks and other financial institutions	185,807	-	-	-	-	-	185,807
Deposits from customers	797,296	1,776,963	225,311	108,352	-	-	2,907,922

The group has reported assets such as advances and debt securities which have been overdue for not more than one month as "Repayable on demand" and assets which are non-performing or which are overdue for more than one month as "Undated". In the case of an asset which is repayable by different payments or instalments, only that portion of the asset which is actually overdue is reported as overdue. Any part of the asset which is not due is reported according to the residual maturity unless the repayment of the asset is in doubt in which case the amount is reported as "Undated". The above assets are stated before deduction of provisions, if any.

35 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, 16, 17, 19, 21, 25, 29 and 30, which were carried out in the normal course of the group's business.

	2003 HK\$'000	2002 HK\$'000
Loans		
Outstanding at beginning of year	41	-
Loans issued during the year	319	41
Loans repaid during the year	(41)	-
	<u>319</u>	<u>41</u>
Outstanding as at end of year	<u>319</u>	<u>41</u>
Interest income		
	<u>5</u>	<u>-</u>

No provision has been recognised in respect of loans given to related parties (2002: Nil).

Deposits

Outstanding at beginning of year	2,872	3,543
Deposits received during the year	16,092	14,515
Deposits paid during the year	(15,835)	(15,186)
	<u>3,129</u>	<u>2,872</u>
Outstanding as at end of year	<u>3,129</u>	<u>2,872</u>
Interest expense		
	<u>50</u>	<u>57</u>

36 Approval of accounts

The accounts were approved by the board of directors on 25th May 2004.

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