

# ANNUAL REPORT 2004



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Commercial Banking

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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, Zhuhai 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, financial and insurance 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](http://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

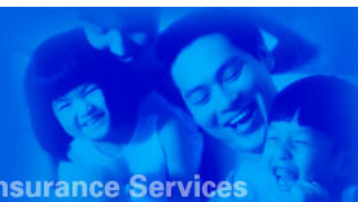
- SME loans
- Mortgage loans
- Machinery and equipment financing
- Consumer goods instalment loans
- Accounts receivable financing
- Various kinds of commercial lending

### 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
- 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  
BOOTH Charles David\*  
CROCKETT David \*  
KWAN Yuen Chiu, Paul \*  
LAU Kai Hing \*  
LAU Siu Lun, David  
LEUNG Chi Ping, Michael \*  
WONG Kai Fun, Kenneth

\* *Non-Executive Director*

### Senior Management Executives

AU Chong Kit, Stanley  
*Group Chairman*  
LAU Siu Lun, David  
*Executive Director*  
WONG Kai Fun, Kenneth  
*Chief Operating Officer*

### Banco Delta Asia S.A.R.L.

NG Chi Wai, Philip  
*Executive Director*  
WONG Kai Fun, Kenneth  
*Chief Operating Officer*  
CHOW Wai Man, Ronny  
*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  
*Chief Operating Officer*  
CHOW Wai Man, Ronny  
*Group Treasurer*

### Delta Asia Securities Limited

AU Chong Kit, Stanley  
*Responsible Officer*  
YIM Kai Ming, Daniel  
*Operations Manager*

### Delta Asia Financial Futures Limited

DAI Kok Kwong  
*Responsible Officer*

### Delta Asia Insurance Limited

ZENG XiangWei  
*Director and Chief Executive*

### Group Services

WONG Kai Fun, Kenneth  
*Chief Operating Officer*  
LAU Siu Lun, David  
*Group Credit Controller*  
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 National Committee of the Central Government of China.

## Mr. BOOTH, Charles David\*

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.

## **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 of over 25 years.

## **Mr. WONG Kai Fun, Kenneth**

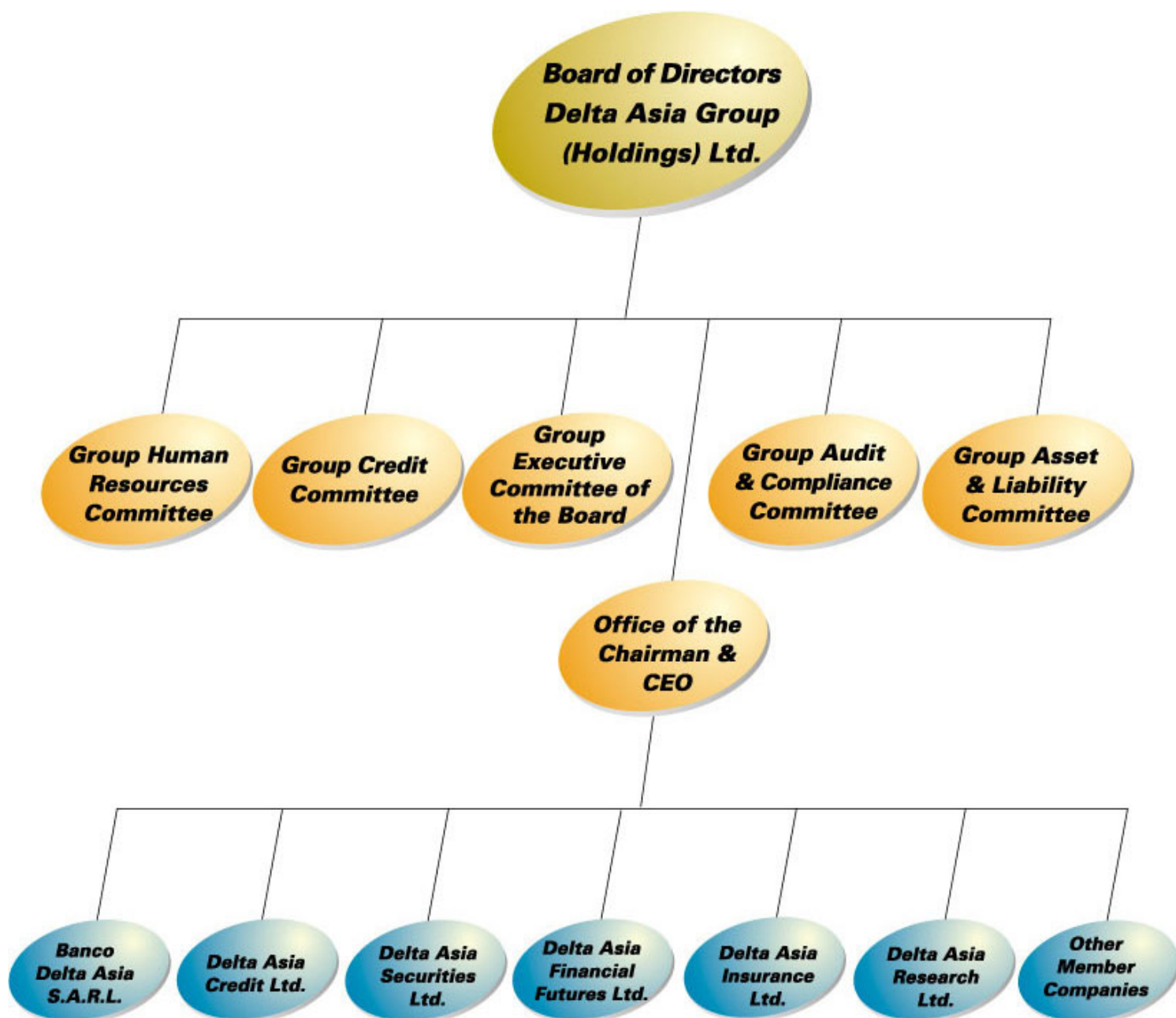
Mr. Wong joined the Group as the Director of Group Operations in February 2004. For slightly over three decades, Mr. Wong held different senior positions in two American banks and one Japanese bank. Mr. Wong was designated Honorary Distinguished Citizen of the State of Washington U.S.A. in September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

\* Non-Executive Directors



# Organisation Structure

Investment Banking



# Five Year Financial Summary

Insurance Services

(all expressed in HK\$ Million)

	2004	2003	2002	2001	2000
<b>Consolidated Operating Results</b>					
Profit before bad & doubtful debts provisions	71.8	62.7	32.3	52.0	113.2
less: Bad & doubtful debt provisions	(8.9)	(7.1)	(8.4)	(27.7)	(27.2)
Profit on ordinary activities	62.9	55.6	23.9	24.3	86.0
Share of results of associated companies	8.8	1.2	-	(6.9)	-
less: Taxation	(10.2)	(6.4)	(4.3)	(1.0)	(3.0)
Profit after taxation	61.5	50.4	19.6	16.4	83.0
less: Minority interest	(1.7)	(1.5)	(0.6)	(0.8)	(0.3)
Profit attributable to shareholders	59.8	48.9	19.0	15.6	82.7
<b>Consolidated Balance Sheet</b>					
Cash and bank balances	1,231	1,056	1,464	837	1,701
Investments	882	823	322	1,021	149
Loans and trade bills	1,565	1,547	1,441	1,294	1,317
Fixed assets	221	215	192	180	168
Debtors & other assets	305	285	143	159	143
Total assets	4,204	3,926	3,562	3,491	3,478
Deposits and balance from banks	183	149	186	141	255
Customers' deposits	3,368	3,222	2,908	2,932	2,811
Taxation	15	15	12	8	11
Other liabilities	139	118	95	74	75
Total liabilities	3,705	3,504	3,201	3,155	3,152
Share capital	121	121	121	121	121
Reserves	204	183	170	128	133
Retained earnings	160	106	60	77	63
Shareholders' funds	485	410	351	326	317
Minority interests	14	12	10	10	9
Total capital resources	499	422	361	336	326
Total liabilities and capital resources	4,204	3,926	3,562	3,491	3,478

# Financial Highlights

Commercial Banking

(All expressed in HK\$ Million)

	2004	2003	Change	Change %
<b>For the year</b>				
Net interest income	104.7	98.3	6.4	6.5%
Other operating income	109.2	101.8	7.4	7.3%
Operating profit before provisions	71.8	62.9	8.9	14.1%
Charge for bad and doubtful debts	8.9	7.1	1.8	25.4%
Operating profit after provisions	62.9	55.8	7.1	12.7%
Profit attributable to shareholders	59.8	48.9	10.9	22.3%
<b>At year-end</b>				
Loans and advances to customers	1,405.0	1,365.3	39.7	2.9%
Trade bills	160.0	181.6	-21.6	-11.9%
Customers' deposits	3,368.0	3,222.4	145.6	4.5%
Total assets	4,204.0	3,926.0	278.0	7.1%
Shareholders' funds	485.0	409.7	75.3	18.4%
<b>Key ratios</b>				
Non-interest income/total income	51.0%	50.9%	0.1%	0.2%
Returns on total average assets	1.5%	1.3%	0.2%	15.4%
Returns on average shareholders' funds	13.4%	12.9%	0.5%	3.9%
Loan to deposit ratio	44.0%	43.8%	0.2%	0.6%
Capital adequacy ratio	15.9%	15.2%	0.7%	4.3%

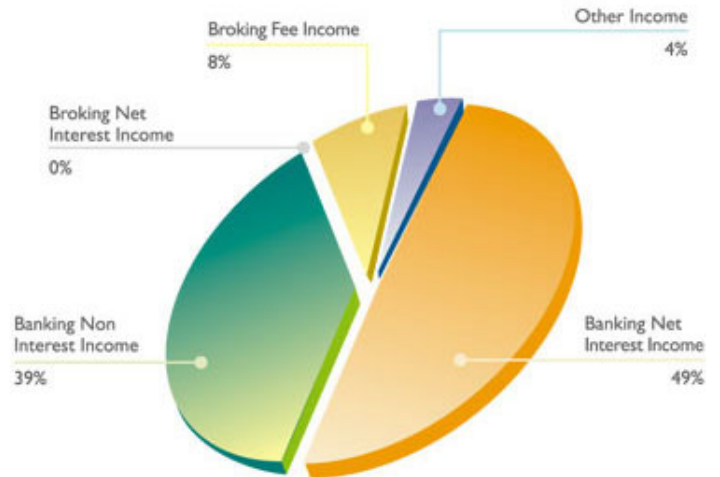
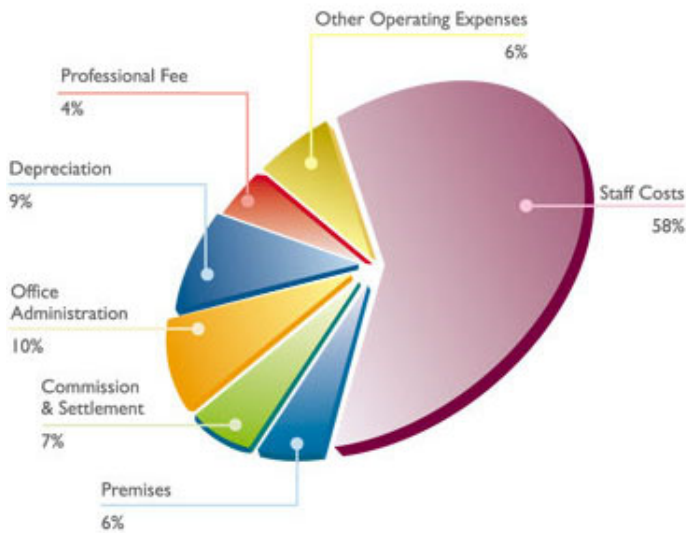
# Financial Highlights

Commercial Banking

## Year 2004

### Group Operating Expense

Total HK\$'000 **142,060**



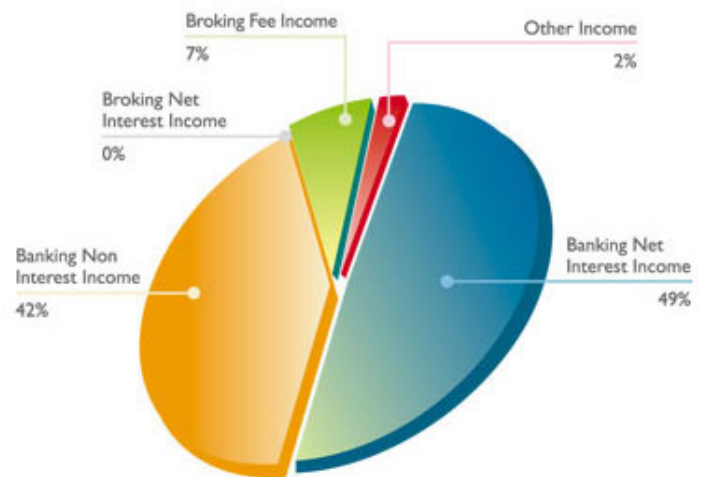
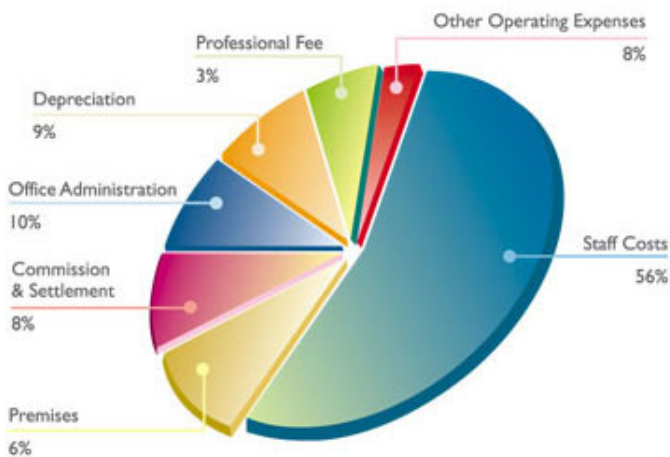
### Group Operating Income

Total HK\$'000 **213,870**

## Year 2003

### Group Operating Expense

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



### Group Operating Income

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

The directors submit their report together with the audited accounts for the year ended 31st December 2004.

## 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 15.

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 18 and note 27 (c) respectively.

## Donations

Charitable and other donations made by the group during the year amounted to HK\$511,000.

## Fixed assets

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

## Directors

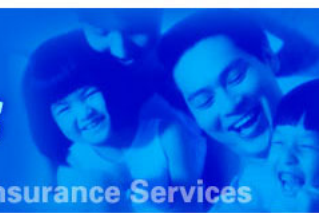
The directors who held office during the year and up to the date of this report are:

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

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, 27th May 2005

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 15 to 55 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 Institute of Certified Public 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 2004 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, 27th May 2005

# Consolidated Profit and Loss Account

Investment Banking

FOR THE YEAR ENDED 31ST DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
Interest income	2	127,136	128,634
Interest expense		(22,426)	(30,317)
Net interest income		104,710	98,317
Other operating income	3	109,160	101,753
Operating income		213,870	200,070
Operating expenses	4	(142,060)	(137,139)
Operating profit before provisions		71,810	62,931
Charge for bad and doubtful debts	5	(8,903)	(7,093)
Operating profit after provisions		62,907	55,838
Loss on disposal of fixed assets		(2)	(233)
Profit on ordinary activities		62,905	55,605
Share of results of associated companies		8,770	1,220
Profit before taxation		71,675	56,825
Taxation	6(a)	(10,154)	(6,396)
Profit after taxation		61,521	50,429
Minority interests		(1,672)	(1,482)
Profit attributable to shareholders	7	59,849	48,947

The notes on pages 20 to 55 form part of these accounts.



# Consolidated Balance Sheet

Insurance Services

AS AT 31ST DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>ASSETS</b>			
Cash and short-term funds	9	1,210,380	1,036,781
Placements with banks and other financial institutions maturing between one and twelve months		21,399	18,601
Trade bills	10	160,025	181,584
Certificates of deposit held	11	102,803	35,819
Trading securities	12	222,593	287,395
Non-trading securities	13	70,770	41,042
Held-to-maturity securities	14	458,685	436,786
Loans and advances to customers	15	1,405,042	1,365,309
Interests in associated companies	17	25,574	22,312
Bullion inventory		70,318	74,573
Intangible assets	18	(904)	(1,357)
Fixed assets	19	221,471	214,758
Other assets	20	236,046	212,396
<b>Total assets</b>		<u>4,204,202</u>	<u>3,925,999</u>
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions	21	183,207	148,456
Deposits from customers	22	3,368,012	3,222,355
Other accounts and provisions	23	153,498	133,214
<b>Total liabilities</b>		<u>3,704,717</u>	<u>3,504,025</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	26	120,996	120,996
Reserves		364,010	288,741
Shareholders' funds		485,006	409,737
Minority interests		14,479	12,237
<b>Total capital resources</b>		<u>499,485</u>	<u>421,974</u>
<b>Total liabilities and capital resources</b>		<u>4,204,202</u>	<u>3,925,999</u>

AU Chong Kit, Stanley  
Chairman

WONG Kai Fun  
Director

The notes on page 20 to 55 form part of these accounts.

# Balance Sheet

Insurance Services

AS AT 31ST DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments in subsidiaries	16	172,218	167,743
Investment in an associated company	17	16,107	21,000
		<u>188,325</u>	<u>188,743</u>
<b>Current assets</b>			
Interest receivable		4,667	3,791
Cash and bank balances		1,119	335
		<u>5,786</u>	<u>4,126</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Amount due to a director	25	1,019	1,019
Creditors, accrued charges and other liabilities		276	276
		<u>1,295</u>	<u>1,295</u>
Net current assets		<u>4,491</u>	<u>2,831</u>
<b>Total assets less current liabilities</b>		<u><u>192,816</u></u>	<u><u>191,574</u></u>
<b>Financed by:</b>			
Share capital	26	120,996	120,996
Retained earnings	27(c)	71,820	70,578
Shareholders' funds		<u><u>192,816</u></u>	<u><u>191,574</u></u>

**AU Chong Kit, Stanley**  
Chairman

**WONG Kai Fun**  
Director

The notes on page 20 to 55 form part of these accounts.

# Consolidated Statement of Changes in Equity

Investment Banking

FOR THE YEAR ENDED 31ST DECEMBER 2004

	Share Capital HK\$'000	Legal Reserves HK\$'000 (Note 27(a))	Investment properties revaluation reserve HK\$'000	Leasehold land & buildings revaluation reserve HK\$'000	Capital reserve HK\$'000 (Note 27(b))	Exchange reserve HK\$'000	Investment revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2003	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	120,996	38,331	7,174	36,436	94,520	399	5,962	105,919	409,737
Company and subsidiaries	120,996	38,331	7,174	36,436	94,520	399	5,962	111,492	415,310
Associated companies (Note 17)	-	-	-	-	-	-	-	(5,573)	(5,573)
	120,996	38,331	7,174	36,436	94,520	399	5,962	105,919	409,737
At 1st January 2004	120,996	38,331	7,174	36,436	94,520	399	5,962	105,919	409,737
Net profit for the year	-	-	-	-	-	-	-	59,849	59,849
Revaluation of properties	-	-	-	13,137	-	-	-	-	13,137
Revaluation of investments	-	-	-	-	-	-	2,630	-	2,630
Transfer to legal reserve	-	5,656	-	-	-	-	-	(5,656)	-
Deferred taxation (Note 24)	-	-	-	(347)	-	-	-	-	(347)
At 31st December 2004	120,996	43,987	7,174	49,226	94,520	399	8,592	160,112	485,006
Company and subsidiaries	120,996	43,987	7,174	49,226	94,520	399	8,592	157,645	482,539
Associated companies (Note 17)	-	-	-	-	-	-	-	2,467	2,467
	120,996	43,987	7,174	49,226	94,520	399	8,592	160,112	485,006

The notes on page 20 to 55 form part of these accounts.

# Consolidated Cash Flow Statement

Insurance Services

FOR THE YEAR ENDED 31ST DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
Operating activities			
Net cash inflow from operations	28(a)	271,918	155,258
Investing activities			
Purchase of fixed assets		(5,262)	(31,008)
Proceeds from disposal of fixed assets		-	6
Purchase of held-to-maturity securities		(149,578)	(414,524)
Purchase of non-trading securities		(46,452)	(23,144)
Proceeds from redemption of held-to-maturity securities		127,179	2,762
Proceeds from sale of non-trading securities		23,099	10,114
Proceeds from winding up of an associated company		2,873	-
Loan repayment from an associated company		4,893	-
Net cash outflow from investing activities		(43,248)	(455,794)
Increase/(decrease) in cash and cash equivalents		228,670	(300,536)
Cash and cash equivalents at 1st January		904,719	1,205,255
Cash and cash equivalents at 31st December	28(b)	1,133,389	904,719

The notes on page 20 to 55 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 Institute of Certified Public Accountants (“HKICPA”). 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.

The HKICPA had issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The company and its Hong Kong subsidiaries have not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

### (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.

#### (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.

## 1 Principal accounting policies (Continued)

### (b) Group accounting (Continued)

#### (ii) Associated companies (Continued)

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.

### (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.

## 1 Principal accounting policies (Continued)

### (d) Revenue recognition (Continued)

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 insurance 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.

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. Specific provision is made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advances or other assets.

## 1 Principal accounting policies (Continued)

### (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 option 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” or “Net gain/(loss) from other dealing activities”.

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”.

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.



## 1 Principal accounting policies (Continued)

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

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.

### (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.

## 1 Principal accounting policies (Continued)

### (m) Fixed assets (Continued)

#### (i) Investment properties (Continued)

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.

#### (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.

## 1 Principal accounting policies (Continued)

### (m) Fixed assets (Continued)

#### (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.

### (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.

## 1 Principal accounting policies (Continued)

### (o) Investment in securities (Continued)

#### (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.

### (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.

## 1 Principal accounting policies (Continued)

### (r) Employee benefits

#### (i) Employee leave entitlements

Employee entitlements to annual leave are non-accumulating. They lapse if the current period's entitlement is not used in full and do not entitle employees to a cash payment for unused entitlement on leaving the group. As employee service does not increase the amount of the benefit, the group recognises no liability or expense until the absences occur.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### (ii) 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.

#### (iii) 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.

## 1 Principal accounting policies (Continued)

### (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.

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

	2004 HK\$'000	2003 HK\$'000
Interest income from loans and advances to customers and other banking operations	93,781	104,614
Interest income on listed investments	10,908	8,168
Interest income on unlisted investments	22,249	15,755
Interest income from margin client accounts	198	97
	<u>127,136</u>	<u>128,634</u>

## 3 Other operating income

	2004 HK\$'000	2003 HK\$'000
Fees and commission income	92,356	75,651
Less: Fees and commission expense	(28,388)	(21,129)
Net fees and commission income	<u>63,968</u>	<u>54,522</u>
Net gain from dealing in foreign exchange	28,595	26,687
Net gain on trading securities	85	10,337
Net gain from other dealing activities	1,856	831
Net gain on disposal of non-trading securities	3,640	63
Dividends from equity securities		
- listed	1,518	541
- unlisted	1,442	1,482
Interest income from bank deposits	98	334
Net underwriting income from insurance operations	2,829	3,761
Rental income from investment properties	33	26
Other income	5,096	3,169
	<u><u>109,160</u></u>	<u><u>101,753</u></u>

## 4 Operating expenses

	2004 HK\$'000	2003 HK\$'000
Staff costs including directors' emoluments (Note 8)	82,701	76,589
Operating leases rental for land and buildings	9,152	7,947
Office administration	14,465	14,404
Communication and settlement costs	9,118	10,803
Auditors' remuneration	1,675	1,555
Depreciation	12,626	11,901
Amortisation of negative goodwill	(453)	(453)
(Surplus)/deficit on revaluation of leasehold land and buildings	(472)	8
Other operating expenses	13,248	14,385
	<u><u>142,060</u></u>	<u><u>137,139</u></u>

## 5 Charge for bad and doubtful debts

	2004 HK\$'000	2003 HK\$'000
Charge for bad and doubtful debts		
- Specific provision	18,629	7,812
- General provision	1,694	1,245
Recoveries on loans previously written off	(11,420)	(1,964)
Net charge to consolidated profit and loss account	<u><u>8,903</u></u>	<u><u>7,093</u></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% (2003: 17.5%) on estimated assessable profit for the year. Macau Complementary tax has been calculated on the estimated assessable profit for the year at the rate of 15.75% (2003: 15.75%).

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax		
- current	2,824	2,198
- (over)/under provision in prior years	(220)	77
Macau Complementary tax		
- current	6,608	5,546
- over provision in prior years	(90)	(295)
Deferred taxation relating to the origination and reversal of temporary differences	509	(1,132)
Deferred taxation resulting from an increase in tax rate	-	2
Share of taxation of associated companies	523	-
	<u>10,154</u>	<u>6,396</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: -

	2004 HK\$'000	2003 HK\$'000
Profit on ordinary activities	62,905	55,605
Calculated at a taxation rate of 17.5% (2003: 17.5%)	11,008	9,731
Effect of different taxation rate in Macau	(732)	(599)
Income not subject to taxation	(1,198)	(761)
Expenses not deductible for taxation purposes	1,608	574
Utilisation of previously unrecognised tax losses	-	(1,941)
Reversal of previously unrecognised temporary difference	(1)	2
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	-	2
Over provision in prior years	(310)	(218)
Share of taxation of associated companies	523	-
Others	(744)	(394)
Taxation charge	<u>10,154</u>	<u>6,396</u>



## 6 Taxation (Continued)

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

	2004 HK\$'000	2003 HK\$'000
Hong Kong	7,726	8,426
Macau	7,725	6,410
	<u>15,451</u>	<u>14,836</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\$1,242,000 (2003: HK\$827,000).

## 8 Directors' emoluments

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

	The group	
	2004 HK\$'000	2003 HK\$'000
Fees	970	631
Other emoluments	9,170	7,499
	<u>10,140</u>	<u>8,130</u>

## 9 Cash and short-term funds

	The group	
	2004 HK\$'000	2003 HK\$'000
Cash and balances with banks and other financial institutions (Note (i))	541,009	385,872
Money at call and short notice	630,536	594,598
Treasury bills (Note (ii))	38,835	56,311
	<u>1,210,380</u>	<u>1,036,781</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 2004, HK\$56,332,000 (2003: HK\$44,442,000) was placed with the AMCM for this purpose.

## 9 Cash and short-term funds (Continued)

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

	The group	
	2004	2003
	HK\$'000	HK\$'000
Unlisted, at cost:		
Treasury bills	38,835	56,311

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

## 10 Trade bills

	The group	
	2004	2003
	HK\$'000	HK\$'000
Trade bills	161,692	193,990
Provision for bad and doubtful debts		
- Specific provision	(690)	(9,679)
- General provision	(977)	(2,727)
	<u>160,025</u>	<u>181,584</u>

## 11 Certificates of deposit held

	The group	
	2004	2003
	HK\$'000	HK\$'000
Held-to-maturity, at amortised cost:		
- Unlisted	102,803	35,819

## 12 Trading securities

	The group	
	2004	2003
	HK\$'000	HK\$'000
Equity securities, at fair value		
- Listed in Hong Kong	5,393	2,062
- Listed outside Hong Kong	747	1,198
	<u>6,140</u>	<u>3,260</u>
Debt securities, at fair value		
- Listed in Hong Kong	18,968	6,783
- Listed outside Hong Kong	19,899	48,776
- Unlisted	89,505	158,054
	<u>128,372</u>	<u>213,613</u>
Unlisted investment funds, at fair value	88,081	70,522
	<u>222,593</u>	<u>287,395</u>

## 12 Trading securities (Continued)

	The group	
	2004	2003
	HK\$'000	HK\$'000
Trading securities are analysed by issuers as follows:		
- Central governments and central banks	1,207	1,147
- Public sector entities	-	1,429
- Banks and other financial institutions	67,090	151,403
- Corporate entities	66,215	62,894
- Others	88,081	70,522
	<u>222,593</u>	<u>287,395</u>

## 13 Non-trading securities

	The group	
	2004	2003
	HK\$'000	HK\$'000
Equity securities, at fair value		
- Listed shares in Hong Kong	41,745	23,247
- Listed shares outside Hong Kong	107	1,926
- Unlisted shares	992	991
	<u>42,844</u>	<u>26,164</u>
Unlisted investment funds, at fair value	<u>27,926</u>	<u>14,878</u>
	<u>70,770</u>	<u>41,042</u>
Non-trading securities are analysed by issuers as follows:		
- Public sector entities	1,862	1,285
- Banks and other financial institutions	4,414	3,183
- Corporate entities	36,568	21,696
- Others	27,926	14,878
	<u>70,770</u>	<u>41,042</u>

## 14 Held-to-maturity securities

	The group	
	2004	2003
	HK\$'000	HK\$'000
At amortised cost:		
Debt securities		
- Listed outside Hong Kong	176,944	126,670
- Unlisted	281,741	310,116
	<u>458,685</u>	<u>436,786</u>
Held-to-maturity securities are analysed by issuers as follows:		
- Banks and other financial institutions	298,413	387,207
- Corporate entities	160,272	49,579
	<u>458,685</u>	<u>436,786</u>

## 15 Loans and advances to customers

	The group	
	2004 HK\$'000	2003 HK\$'000
Gross loans and advances to customers	1,446,240	1,438,669
Provision for bad and doubtful debts		
- Specific provision	(20,458)	(56,064)
- General provision	(20,740)	(17,296)
	1,405,042	1,365,309
	1,405,042	1,365,309

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

	The group			
	Specific provision HK\$'000	General provision HK\$'000	Total HK\$'000	Suspended Interest HK\$'000
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	
Balance at 1st January 2004	65,743	20,023	85,766	18,269
Charge to consolidated profit and loss account	7,209	1,694	8,903	-
Recoveries of advances previously written off	11,420	-	11,420	-
Amounts written off	(63,224)	-	(63,224)	(15,208)
Interest suspended during the year	-	-	-	1,920
Suspended interest recovered	-	-	-	(284)
Balance at 31st December 2004	21,148	21,717	42,865	4,697
Deducted from:				
- loans and advances to customers	20,458	20,740	41,198	
- trade bills	690	977	1,667	
	21,148	21,717	42,865	
	21,148	21,717	42,865	

## 15 Loans and advances to customers (Continued)

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

	Advances to customers	
	2004 HK\$'000	2003 HK\$'000
Non-performing loans	105,046	199,235
Percentage to total advances to customers	7.26%	13.85%
Specific provisions made in respect of such advances	19,313	55,044
Amount of interest in suspense	4,697	18,269

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	
	2004 HK\$'000	2003 HK\$'000
Gross investment in finance leases, receivable:		
Not later than one year	6,358	6,605
Later than one year and not later than five years	76,407	78,236
Later than five years	-	414
	82,765	85,255
Unearned future finance income on finance leases	(5,923)	(6,917)
Net investment in finance leases	76,842	78,338

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

Not later than one year	6,075	6,272
Later than one year and not later than five years	70,767	71,744
Later than five years	-	322
	76,842	78,338

No guaranteed residual value is included in the gross investment in finance leases as at 31st December 2004 and 2003.

The allowance for uncollectible finance receivables included in the provision for loan losses amounted to HK\$627,000 as at 31st December 2004 (2003: HK\$1,090,000).

## 16 Investments in subsidiaries

	The company	
	2004 HK\$'000	2003 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))	21,038	16,588
Amounts due from subsidiaries (Note (b))	24	23
Amounts due to subsidiaries (Note (b))	(10,557)	(10,581)
	<u>172,218</u>	<u>167,743</u>

- (a) The loan is unsecured, interest bearing at Hong Kong Interbank Offer Rate plus 2% 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 2004, the company held shares in the following subsidiaries:

Name of subsidiary	Place of incorporation	Number of issued ordinary share capital	Value per share	Interest held	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	Interest held	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 1.45% (2003: 1.46%) of the group's net assets.

## 17 Interests in associated companies

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost (Note (b))	-	2,666	-	-
Share of post-acquisition reserves	2,467	(5,573)	-	-
Share of net assets / (liabilities)	2,467	(2,907)	-	-
Loan to an associated company (Note (a))	23,107	28,000	23,107	28,000
Amount due to an associated company	-	(2,781)	-	-
Provision	-	-	(7,000)	(7,000)
	<u>25,574</u>	<u>22,312</u>	<u>16,107</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 2004, the group held shares in the following associated companies:

Name of associated companies	Place of incorporation	Particulars of issued shares held	Interest held	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 MOP 100 each	28%	Tele-communications



## 18 Intangible assets

	The group		
	Positive goodwill HK\$'000	Negative goodwill HK\$'000	Total goodwill HK\$'000
Cost			
At 1st January and 31st December 2004	767	(2,263)	(1,496)
Accumulated amortisation			
At 1st January 2004	767	(906)	(139)
Amortisation for the year	-	(453)	(453)
At 31st December 2004	767	(1,359)	(592)
Net book value			
At 31st December 2004	-	(904)	(904)
At 31st December 2003	-	(1,357)	(1,357)

## 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	-	-	115,685	115,685
At valuation	14,000	150,856	-	164,856
At 1st January 2004	14,000	150,856	115,685	280,541
Additions	-	-	5,262	5,262
Disposals	-	-	(7)	(7)
Revaluation	-	11,394	-	11,394
At 31st December 2004	14,000	162,250	120,940	297,190
Accumulated depreciation and impairment				
At 1st January 2004	-	-	65,783	65,783
Charge for the year	-	2,685	9,941	12,626
Disposals	-	-	(5)	(5)
Revaluation	-	(2,685)	-	(2,685)
At 31st December 2004	-	-	75,719	75,719
Net book value				
At 31st December 2004	14,000	162,250	45,221	221,471
At 31st December 2003	14,000	150,856	49,902	214,758

## 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 2004				
At cost	-	-	120,940	120,940
At valuation				
- 2004 (Note (a) and (b))	14,000	162,250	-	176,250
	<u>14,000</u>	<u>162,250</u>	<u>120,940</u>	<u>297,190</u>
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>

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	
<u>At 31st December 2004</u>					
Medium term leases					
At valuation	-	10,000	1,200	11,200	11,200
Long term leases					
At valuation	14,000	-	151,050	151,050	165,050
	<u>14,000</u>	<u>10,000</u>	<u>152,250</u>	<u>162,250</u>	<u>176,250</u>

## 19 Fixed assets (Continued)

	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	
<u>At 31st December 2003</u>					
Medium term leases					
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>

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

- Both the valuation carried out in 2004 and 2003 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 2004 and 31st December 2003 respectively.
- The carrying amount of the leasehold land and buildings would have been HK\$125,288,000 (2003: HK\$127,874,000) had they been stated at cost less accumulated depreciation.
- Included in leasehold and buildings was a property acquired from a director with carrying value of HK\$26,699,000 as at 31st December 2004 (2003: HK\$24,223,000). The group has no legal title to this property and the group has been granted by the director 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.
- At 31st December 2004, the net book value of investment properties amounting to HK\$14,000,000 (2003: HK\$14,000,000) were pledged as security for the group's overdrafts.

## 20 Other asset

	The group	
	2004	2003
	HK\$'000	HK\$'000
Accounts receivable	69,318	78,717
Interest receivable	12,074	14,260
Properties under foreclosure	15,058	12,996
Cheques purchased	10,468	8,119
Deferred taxation (Note 24)	1,041	1,507
Prepayment, sundry deposits and other receivable	128,087	96,797
	<u>236,046</u>	<u>212,396</u>

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	
	2004	2003
	HK\$'000	HK\$'000
Due to banks and other financial institutions (unsecured)	183,207	145,829
Bank loans and overdrafts (secured) - Notes (a) and (b)	-	2,627
	<u>183,207</u>	<u>148,456</u>

(a) At 31st December 2004, there were no bank loans and overdrafts (2003: Nil) secured by marketable securities owned by margin clients and pledged to a subsidiary for margin financing purpose.

(b) At 31st December 2004, there were no bank overdrafts (2003: HK\$2,627,000) secured by a charge on a property of a subsidiary in Macau.

## 22 Deposits from customers

	The group	
	2004	2003
	HK\$'000	HK\$'000
Demand deposits and current accounts	258,091	177,225
Savings deposits	1,402,107	1,116,965
Time, call and notice deposits	1,564,926	1,815,785
Margin deposits	131,996	96,020
Other deposits	10,892	16,360
	<u>3,368,012</u>	<u>3,222,355</u>

## 23 Other accounts and provisions

	The group	
	2004	2003
	HK\$'000	HK\$'000
Amount due to a director (Note 25)	1,019	1,019
Accounts payable, accrued charges and other liabilities	135,318	116,039
Taxation (Note 6(c))	15,451	14,836
Deferred taxation (Note 24)	1,710	1,320
	<u>153,498</u>	<u>133,214</u>

## 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% (2003: 15.75%) for the Macau subsidiaries while a principal taxation rate of 17.5% (2003: 17.5%) is used by the Hong Kong subsidiaries.

The movement on the deferred tax liabilities/(assets) during the year is as follows:

	The group	
	HK\$'000	HK\$'000
At 1st January	(187)	593
Deferred taxation charged/(credited) to profit and loss account (Note 6(a))	509	(1,130)
Deferred taxation charged to revaluation reserve	347	350
At 31st December	<u>669</u>	<u>(187)</u>

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	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January	1,326	749	912	569	136	27	2,374	1,345
Charged/(credited) to profit and loss account	(61)	577	21	(7)	26	109	(14)	679
Charged to equity	-	-	347	350	-	-	347	350
At 31st December	<u>1,265</u>	<u>1,326</u>	<u>1,280</u>	<u>912</u>	<u>162</u>	<u>136</u>	<u>2,707</u>	<u>2,374</u>

## 24 Deferred taxation (Continued)

Deferred tax assets	Provisions		Tax losses		Impairment of assets		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January	1,171	752	1,200	-	190	-	2,561	752
(Charged)/credited to profit and loss account	180	419	(703)	1,200	-	190	(523)	1,809
At 31st December	<u>1,351</u>	<u>1,171</u>	<u>497</u>	<u>1,200</u>	<u>190</u>	<u>190</u>	<u>2,038</u>	<u>2,561</u>

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:

	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	1,041	1,507
Deferred tax liabilities	(1,710)	(1,320)
	<u>(669)</u>	<u>187</u>

The amounts shown in the balance sheet include the following:

	2004 HK\$'000	2003 HK\$'000
Deferred tax assets to be recovered after more than 12 months	(1,541)	(1,361)
Deferred tax liabilities to be settled after more than 12 months	2,644	2,307
	<u>(287)</u>	<u>946</u>

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\$1,578,141 (2003: HK\$2,042,008) 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 2004	<u>15,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 1st January and 31st December 2004	<u>12,099,633</u>	<u>120,996</u>

## 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 in Macau, Delta Asia Insurance Limited (“DAI”) and a property investment subsidiary in Macau, Delta Asia Properties Limited (“DAP”).

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

In 2004, HK\$5,456,000 (2003: HK\$3,544,000) was transferred to the legal reserve, based on BDA’s profit after taxation for the year ended 31st December 2003, after the accounts had been approved by the shareholders in the Annual General Meeting.

In 2004, HK\$200,000 (2003: HK\$274,000) was transferred to the legal reserve, based on DAI’s profit after taxation for the year ended 31st December 2003, 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 2004 (2003: Nil) as DAP has provided sufficient legal reserve. DAP’s legal reserve is HK\$469,000 as at 31 December 2004.

### (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	
	2004 HK\$'000	2003 HK\$'000
At 1st January	70,578	69,751
Profit attributable to shareholders (Note 7)	1,242	827
At 31st December	<u>71,820</u>	<u>70,578</u>



## 28 Notes to consolidated cash flow statement

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

	The group	
	2004 HK\$'000	2003 HK\$'000
Operating profit after provisions	62,907	55,838
Charge for bad and doubtful debts	8,903	7,093
Depreciation	12,626	11,901
Amortisation of negative goodwill	(453)	(453)
(Surplus)/deficit on revaluation of leasehold land and buildings	(472)	8
Net gain on disposal of non-trading securities	(3,640)	(63)
Dividends from listed equity securities	(1,518)	(541)
Dividends from unlisted equity securities	(1,442)	(1,482)
Interest income from bank deposits	(98)	(334)
Operating profit before changes in operating assets and liabilities	76,813	71,967
(Increase)/decrease in certificates of deposit held maturing beyond three months	(16,486)	507
Decrease in trade bills	32,298	27,166
Increase in loans and advances to customers	(7,571)	(88,183)
Advances written off net of recoveries	(51,804)	(51,533)
Decrease/(increase) in bullion	4,255	(52,405)
Increase in debtors, prepayments and other assets	(24,116)	(87,956)
Decrease/(increase) in trading securities	64,802	(37,339)
(Decrease)/increase in amount due to an associated company	(2,781)	2,781
Decrease/(increase) in cash and short term funds with financial institutions maturing beyond three months	31,719	(31,719)
Decrease in placements with banks and other financial institutions maturing beyond three months	5,307	67,129
Increase in deposits from customers	145,657	314,433
Increase in creditors, accrued charges and other liabilities	19,279	22,412
Net cash inflow from operating activities	277,372	157,260
Hong Kong profits tax paid	(3,307)	(283)
Macau complementary tax paid	(5,205)	(4,076)
Dividends from listed equity securities	1,518	541
Dividends from unlisted equity securities	1,442	1,482
Interest income from bank deposits	98	334
Net cash inflow from operations	271,918	155,258

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

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

	The group	
	2004 HK\$'000	2003 HK\$'000
Cash and balances with banks and other financial institutions	541,009	374,475
Money at call and short notice with original maturity within three months	630,536	574,276
Placements with bank and other financial institutions with original maturity within three months	21,399	13,294
Treasury bills with original maturity within three months	38,835	56,311
Certificates of deposit with original maturity within three months	84,817	34,819
Deposits and balances of banks and other financial institutions with original maturity within three months	(183,207)	(145,829)
Bank overdrafts	-	(2,627)
	1,133,389	904,719
	1,133,389	904,719

## 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	
- The interest rate applicable is changed from prime rate to prime rate minus 3% per annum on 9th July 2004	
- Security	Nil
- Duration and repayment terms	Repayable on demand
Balance of relevant loan in respect of principal and interest	
- at 1st January 2004	HK\$8,624,000
- at 31st December 2004	HK\$12,077,000
Maximum balance outstanding during the year	HK\$12,077,000

## 30 Off-balance sheet exposures

### (a) Contingencies and credit related commitments

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	
	2004 HK\$'000	2003 HK\$'000
Direct credit substitutes	-	40,883
Transaction related contingencies	52,977	14,418
Trade related contingencies	335,146	211,779
Commitments to extend credit:		
- Original term to maturity of one year or less	811,000	668,430
	<u>1,199,123</u>	<u>935,510</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:

	2004			2003		
	Hedging HK\$'000	Trading HK\$'000	Total HK\$'000	Hedging HK\$'000	Trading HK\$'000	Total HK\$'000
Exchange rate contracts	-	3,668,480	3,668,480	-	2,644,981	2,644,981
Commodity contracts	-	504	504	-	1,863	1,863
Index future contracts	-	31,288	31,288	-	19,585	19,585
Equities options	-	216	216	-	880	880
Interest rate future contracts	-	46,252	46,252	-	69,876	69,876
	-	<u>3,746,740</u>	<u>3,746,740</u>	-	<u>2,737,185</u>	<u>2,737,185</u>

The group has proprietary positions in derivative financial instruments amounted to HK\$46.25 million as at 31st December 2004 (2003: HK\$69.87 million). 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 Off-balance sheet exposures (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:

	2004		2003	
	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Contingent liabilities and commitments		9,002		6,956
Exchange rate contracts	464	389	111	33
	<u>464</u>	<u>9,391</u>	<u>111</u>	<u>6,989</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 legal case amounting to approximately HK\$6.0 million (2003: 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\$52,935,000 (2003: HK\$162,996,000) in respect of banking facilities granted to its subsidiaries.

## 31 Capital commitments

At 31st December 2004, the group had the following capital commitments:

	The group	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure for fixed assets:		
Contracted but not provided for	5,318	3,823
	<u>5,318</u>	<u>3,823</u>

## 32 Operating lease commitments

At 31st December 2004, the future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	The group	
	2004	2003
	HK\$'000	HK\$'000
Not later than one year	7,474	7,812
Later than one year and not later than five years	23,337	28,337
Over five years	-	1,607
	<u>30,811</u>	<u>37,756</u>

## 33 Retirement benefit costs

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

	The group	
	2004	2003
	HK\$'000	HK\$'000
Pension costs recognised as expenses	3,879	3,658
	<u>3,879</u>	<u>3,658</u>

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 2004, the scheme has placed deposits with the banking subsidiary and included in the group's accounts of approximately HK\$2.4 million (2003: HK\$0.6 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:

	2004						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	Undated HK\$'000	
<b>Assets</b>							
Cash and short-term funds	541,009	669,371	-	-	-	-	1,210,380
Placements with banks and other financial institutions	-	21,399	-	-	-	-	21,399
Certificates of deposit held	-	84,817	2,434	15,552	-	-	102,803
Debt securities included in:							
- Trading securities	-	36,391	10,828	13,226	55,633	-	116,078
- Held-to-maturity securities	-	40,048	49,812	150,486	218,339	-	458,685
Trade bills	568	120,815	11,028	377	-	28,904	161,692
Cheques purchased	-	10,468	-	-	-	-	10,468
Loans and advances to customers	221,977	371,809	209,188	298,986	231,778	112,502	1,446,240
<b>Liabilities</b>							
Deposits and balances of banks and other financial institutions	183,207	-	-	-	-	-	183,207
Deposits from customers	1,858,133	1,249,106	156,500	104,273	-	-	3,368,012

## 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:

	2003						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	Undated HK\$'000	
<b>Assets</b>							
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
<b>Liabilities</b>							
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

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.

	2004 HK\$'000	2003 HK\$'000
Loans		
Outstanding at beginning of year	319	41
Loans issued during the year	82	319
Loans repaid during the year	(220)	(41)
	<u>181</u>	<u>319</u>
Outstanding as at end of year	<u><u>181</u></u>	<u><u>319</u></u>
Interest income	<u>9</u>	<u>5</u>
No provision has been recognised in respect of loans given to related parties (2003: Nil).		
Deposits		
Outstanding at beginning of year	3,129	2,872
Deposits received during the year	3,803	16,092
Deposits paid during the year	(2,382)	(15,835)
	<u>4,550</u>	<u>3,129</u>
Outstanding as at end of year	<u><u>4,550</u></u>	<u><u>3,129</u></u>
Interest expense	<u>15</u>	<u>50</u>

## 36 Approval of accounts

The accounts were approved by the board of directors on 27th May 2005.



# Management Office and Branch Network

Investment Banking

## Hong Kong Division



### Group Head Office

36/F., Jardine House, Central, Hong Kong

Tel: (852) 2533 0800

Fax: (852) 2810 4495

E-mail: [contact@deltasia.com](mailto:contact@deltasia.com)

Telex: 73347 & 73104 FOREX HK

SWIFT: DABG HK HH

### Tsimshatsui Branch

G23 Hankow Centre,

5-15 Hankow Road,

Tsimshatsui, Kowloon

Tel: (852) 2367 2095

Fax: (852) 2739 5431

### Mongkok Branch

6/F, Punfet Building,

701 Nathan Road,

Mongkok, Kowloon

Tel: (852) 2396 1333

Fax: (852) 2397 6133

### Central Office

M/F & 1/F, Fortune House,

61 Connaught Road,

Central, Hong Kong

Tel: (852) 2819 2288

Fax: (852) 2819 2299

## Japan Division

### Tokyo Representative Office

Otemachi First Square East Tower 4 F,

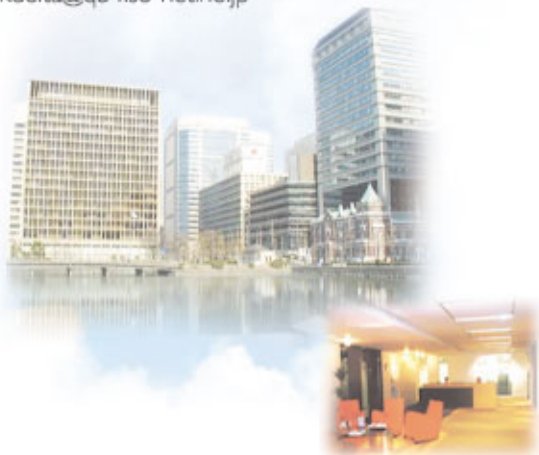
1-5-1 Otemachi, Chiyoda-ku,

Tokyo 100-0004, Japan

Tel: (81) 3-5219-1335

Fax: (81) 3-5219-1201

E-mail: [mkdelta@qb4.so-net.ne.jp](mailto:mkdelta@qb4.so-net.ne.jp)



## China Division



### Delta Asia Consultancy Company Limited

G/F., International Trade Exhibition Centre,

Zhuhai Free Trade Zone, Zhuhai, China.

Tel: (756) 8819393

## Macau Division



### Macau Administrative Centre

Largo de St. Agostinho, Macau  
Fax: (853) 7969624



### The Bank Centre

No. 39-41 Rua do Campo, Macau  
Fax: (853) 921545

### Amaral Branch

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

### Antonio Branch

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

### Barca Branch

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

### Campo Branch

No. 39-41 Rua do Campo, Macau  
Fax: (853) 921545

### Iao Hon Branch

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

### Lisboa Branch

Loja No 61, Hotel Lisboa, Macau  
Fax: (853) 344624

### Outubro Branch

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

### Tap Sac Branch

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

### Airport Service Centre

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

### Financial Services Centre

Shop B-C, No. 39-41 Rua do Campo, Macau  
Fax: (853) 3962034

### For all branches and offices

Tel : (853) 559898  
E-mail : [contact@bdam.com](mailto:contact@bdam.com)