



SAM WOO HOLDINGS LIMITED

三和集團有限公司*

(Incorporation in Bermuda with limited liability)



Interim Report 2005

** For identification purposes only*

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The board (the "Board") of directors of Sam Woo Holdings Limited (the "Company") is pleased to present the unaudited consolidated financial statements for the six months ended 30th September 2004 (the "Period") of the Company and its subsidiaries (collectively the "Group") together with comparative figures for the corresponding period in 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The construction market in Hong Kong continued to weaken in 2004. Government statistics showed that the gross value of construction works at both public and private sites recorded decline in the first half of 2004 as compared to the same period last year. Newly commenced private sector residential projects remained at very low level following years of unfavorable condition in the property market and minimal amount of land sale by the government. The drop in construction activities in the public sector was attributable to the scale-back in public housing and completion of some infrastructure projects. Contrary to the excess capacity in the construction market locally, prices of essential construction materials, including steel, concrete, fuel and lubricant, escalated further in 2004 due to high global demand and speculation. Combination of the above factors significantly impaired the profitability of construction projects.

The Group recorded a turnover of HK\$8.2 million and a gross loss of HK\$21.2 million for the Period as compared to a turnover of HK\$70.8 million and a gross profit of HK\$24.7 million for the same period in 2003. The gross loss for the Period was mainly attributable to the incurrence of fixed costs, such as depreciation and equipment maintenance. The level of administrative expenses and finance costs for the Period are generally comparable to those for the same period in 2003.

Management was conscious of the difficult conditions in the construction industry and exercised prudence in tendering for projects. Instead of engaging in cut-throat competition and undertaking potentially loss-making projects, management focused on activities that would provide a more reasonable profit and generate quicker cash flow to the Group. During the Period, the Group completed all construction projects on hand and did not commence any new projects. Meanwhile, majority of the resources was spent on negotiating for construction projects with better returns and recovering payments from completed project works, on which significant progress had been achieved and shall be reflected in the latter part of the financial year 2004/05.

BUSINESS REVIEW AND OUTLOOK (CONTINUED)

More particularly, the Group had recently contracted a construction project for marine piling, which is set for commencement in January 2005 and involves higher level of technical difficulties and specialties, and is expected to provide a reasonable level of turnover and returns to the Group in 2005. Furthermore, the Group is in the final stage of negotiating settlement for claims and variation works on certain completed projects, from which considerable settlement sums shall be derived and serve to provide ample improvement to the Group's liquidity and operating results for the second half of the financial year 2004/05. Appropriate disclosure to the shareholders and the public shall be made once the Board became aware of any price-sensitive information arisen out of the settlement arrangement.

The construction industry is expected to recover gradually following the pick-up of the local property market and the demand for infrastructure to support the rapid development of the Pan-Pearl River Delta. The recently announced single-Y design for the Hong Kong-Zhuhai-Macau Bridge by the Chinese Transport Minister sees the commencement of the vast infrastructure development plan in the region. However, the process of recovery would not be instantaneous. In the near terms, the Group is placing more focus on the trading of machinery and equipment to take advantage of the high demand in developing countries, such as the Middle-East, Eastern Europe, Russia and Mainland China. At the same time, the Group is actively seeking opportunities to diversify its operation into marine related construction and engineering business to differentiate itself from competitors, targeting a broader market and benefiting from the Group's expertise.

Apart from the marine piling project mentioned earlier, the Group is currently in negotiation with a related company (the "Related Company") under the control of a director and major shareholder of the Company to appoint the Group as manager of vessel(s) owned by the Related Company. Management expects such arrangement shall bring about a steady and pleasant source of marine engineering and vessel chartering revenues and profits to the Group. Full details of this potential arrangement will be disclosed in an announcement/a circular when the terms are finalised and agreed.

LIQUIDITY, FINANCIAL RESOURCES, CAPITAL STRUCTURE AND GEARING

The Group's total tangible assets and net assets as at 30th September 2004 amounted to HK\$351.3 million (31st March 2004: HK\$390.7 million) and HK\$124.1 million (31st March 2004: HK\$153.2 million) respectively.

As at 30th September 2004, the Group had cash and bank balances of HK\$51.9 million (31st March 2004: HK\$56.9 million) and total borrowings of HK\$183.3 million (31st March 2004: HK\$180.2 million). Current portion of long term borrowings, short-term bank loans and bank overdrafts as at 30th September 2004 amounted to HK\$148.9 million (31st March 2004: HK\$123.0 million). The Group's gearing ratio, calculated by dividing the Group's net borrowings by total equity, was 1.06 at the end of the Period.

The Group's borrowings are denominated and operations are conducted mainly in local currency and United State dollars and have minimal exposure to foreign exchange fluctuations. Interest on the Group's borrowings was mainly on floating rate basis.

CHARGES ON ASSETS

The net book values of machinery and equipment held under finance leases amounted to HK\$86.5 million and fixed assets pledged for certain long-term loans amounted to HK\$48.1 million. Certain banking facilities were secured by bank deposits of HK\$50.3 million.

CONTINGENT LIABILITIES

Contingent liabilities of the Group were disclosed in note 13 to the accounts.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES

The Group had about 65 staff members as at the end of the Period and incurred staff costs of HK\$9.0 million during the Period.

The Group provides competitive remuneration packages to employees and adopted a share option scheme (the "Scheme") for the purpose of providing incentives to eligible persons for their contribution to the Group. Details of the Scheme are set out under separate heading in this report.

DISCLOSURE OF INTERESTS OF DIRECTORS

As at 30th September 2004, the interest and short positions of directors in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance), as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance, or as recorded in the register required to be kept under section 352 of the Securities and Futures Ordinance, or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Directors' interest in the Company:

Name of director	Number of shares	Approximate percentage of shareholding	Capacity
Mr. Lau Chun Ming	Long position 500,000 shares (Note 1)	0.16%	Beneficial owner
Mr. Lau Chun Kwok	Long position 23,000,000 shares (Notes 1 & 2)	7.66%	Beneficial owner and interest of a controlled company
Mr. Lau Chun Ka	Long position 23,000,000 shares (Notes 1 & 3)	7.66%	Beneficial owner and interest of a controlled company
Ms. Leung Lai So	Long position 180,500,000 shares (Notes 1 & 4)	60.16%	Beneficial owner and beneficiary of a discretionary trust
Mr. Hsu Kam Yee, Simon	Long position 500,000 shares (Note 1)	0.16%	Beneficial owner
Mr. Chan Sun Kwong	Long position 500,000 shares (Note 1)	0.16%	Beneficial owner
Mr. Chiu Kam Kun, Eric	Long position 500,000 shares (Note 1)	0.16%	Beneficial owner
Dr. Lee Peng Fei, Allen	Long position 500,000 shares (Note 1)	0.16%	Beneficial owner
Professor Wong Sue Cheun, Roderick	Long position 500,000 shares (Note 1)	0.16%	Beneficial owner

Notes:

- On 28th May 2003, the Company granted to each of the director an option to subscribe for 500,000 shares in the share capital of the Company.
- 22,500,000 shares were held by CKL Development Limited, a corporation which is controlled by Mr. Lau Chun Kwok.
- 22,500,000 shares were held by Nice Fair Group Limited, a corporation which is controlled by Mr. Lau Chun Ka.
- 180,000,000 shares were held by Actiease Assets Limited, a company wholly-owned by Silver Bright Holdings Limited which is indirectly owned by a discretionary trust of which Ms. Leung Lai So is a beneficiary.

DISCLOSURE OF INTERESTS OF DIRECTORS (CONTINUED)

(b) Directors' interest in the associated corporations:

Name of director	Name of company	Number of shares	Approximate percentage of shareholding	Capacity
Ms. Leung Lai So	Actease Assets Limited	Long position 61 shares	100%	Beneficiary of a discretionary trust
Ms. Leung Lai So	Silver Bright Holdings Limited	Long position 10,000 shares	100%	Beneficiary of a discretionary trust

DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the Interest and short positions of the persons, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance as at 30th September 2004 are as follows:

Name of substantial shareholder	Number of shares	Approximate percentage of shareholding	Capacity
Actease Assets Limited	Long position 180,000,000 shares	60%	Beneficial owner
Silver Bright Holdings Limited	Long position 180,000,000 shares	60%	Interest of a controlled company
ManageCorp Limited	Long position 180,000,000 shares	60%	Trustee
Dao Heng Trustee (Jersey) Limited as trustee of The LCM 2002 Trust	Long position 180,000,000 shares	60%	Trustee
CKL Development Limited	Long position 22,500,000 shares	7.5%	Beneficial owner
Nice Fair Group Limited	Long position 22,500,000 shares	7.5%	Beneficial owner
Ms. Tang Lin Ngor	Long position 22,500,000 shares	7.5%	Interest of her spouse
Ms. Ip Fung Sheung	Long position 22,500,000 shares	7.5%	Interest of her spouse

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution of the sole shareholder passed on 25th March 2003. The maximum number of shares in respect of which options may be granted shall not exceed 30,000,000 shares representing 10 per cent. in nominal amount of the issued share capital of the Company. The maximum entitlement of each participant shall not exceed 1 per cent. of the shares in issue in any 12-month period up to the date of the latest grant of options.

As at 30th September 2004, the share options granted under the Scheme were still outstanding. No options were granted, exercised, cancelled or lapsed during the Period.

SHARE OPTION SCHEME (CONTINUED)

The following are the particulars of outstanding options:

Name of the participant	Date of grant	No. of options outstandings as at 30th September 2004	Exercise period	Exercise price
Mr. Lau Chun Ming	28th May 2003	500,000	from 28th May 2004 to 27th May 2007, both days inclusive	HK\$0.69
Mr. Lau Chun Kwok	28th May 2003	500,000	from 28th May 2004 to 27th May 2007, both days inclusive	HK\$0.69
Mr. Lau Chun Ka	28th May 2003	500,000	from 28th May 2004 to 27th May 2007, both days inclusive	HK\$0.69
Ms. Leung Lai So	28th May 2003	500,000	from 28th May 2004 to 27th May 2007, both days inclusive	HK\$0.69
Mr. Hsu Kam Yee, Simon	28th May 2003	500,000	from 28th May 2004 to 27th May 2007, both days inclusive	HK\$0.69
Mr. Chan Sun Kwong	28th May 2003	500,000	from 28th May 2004 to 27th May 2007, both days inclusive	HK\$0.69
Mr. Chiu Kam Kun, Eric	28th May 2003	500,000	from 28th May 2004 to 27th May 2007, both days inclusive	HK\$0.69
Dr. Lee Peng Fei, Allen	28th May 2003	500,000	from 28th May 2004 to 27th May 2007, both days inclusive	HK\$0.69
Professor Wong Sue Cheun, Roderick	28th May 2003	500,000	from 28th May 2004 to 27th May 2007, both days inclusive	HK\$0.69
		4,500,000		

SHARE OPTION SCHEME (CONTINUED)

Except for the foregoing, during the Period and up to the date of this report, none of the directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased or redeemed any of the Company's listed shares during the Period.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the unaudited interim financial statements of the Group for the six months ended 30th September 2004.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September 2004, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited.

By order of the Board
Sam Woo Holdings Limited
LAU Chun Ming
Chairman

Hong Kong, 9th December 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004

		Unaudited	
		Six months ended 30th September	
	Note	2004 HK\$'000	2003 HK\$'000
Turnover	2	8,210	70,802
Cost of sales		(29,397)	(46,132)
Gross (loss)/profit		(21,187)	24,670
Other revenue	2	91	255
Other income		979	4,151
Administrative expenses		(11,285)	(11,890)
Operating (loss)/profit	4	(31,402)	17,186
Finance costs		(2,808)	(3,206)
(Loss)/profit before taxation		(34,210)	13,980
Taxation	5	5,126	(5,427)
(Loss)/profit attributable to shareholders		(29,084)	8,553
(Loss)/earnings per share			
Basic	7	HK(9.69 cents)	HK2.88cents

CONSOLIDATED BALANCE SHEET AS AT 30TH SEPTEMBER 2004

	Note	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000
Fixed assets		245,478	263,773
Deferred tax assets	12	204	202
		245,682	263,975
Current assets			
Trade receivables	8	19,259	34,190
Deposits, prepayments and other receivables		1,768	3,494
Inventories		8,602	4,321
Amounts due from customers for contract works		22,922	26,826
Tax recoverable		1,198	961
Cash and bank balances			
Unrestricted		1,581	13,213
Restricted		50,309	43,682
		105,639	126,687
Current liabilities			
Trade payables	9	5,350	14,040
Accruals and other payables		6,287	5,816
Secured short-term bank loans		25,103	29,078
Current portion of long-term liabilities	10	45,187	50,630
Bank overdrafts		78,600	43,331
		160,527	142,895
Net current liabilities		(54,888)	(16,208)
Total assets less current liabilities		190,794	247,767
Financed by:			
Share capital	11	30,000	30,000
Reserves		94,134	123,218
Shareholders' funds		124,134	153,218
Long-term liabilities	10	34,381	57,146
Deferred tax liabilities	12	32,279	37,403
		190,794	247,767

CONDENSED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004

	Unaudited	
	Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Net cash used in operating activities	(15,467)	(2,305)
Net cash from investing activities	7,376	3,697
Net cash (used in)/from financing activities	(38,810)	20,044
(Decrease)/increase in cash and cash equivalents	(46,901)	21,436
Cash and cash equivalents at beginning of the period	(30,118)	(55,200)
Cash and cash equivalents at end of the period	(77,019)	(33,764)
Analysis of balances of cash and cash equivalents:		
Cash and bank balances, unrestricted	1,581	25,685
Bank overdrafts	(78,600)	(59,449)
	(77,019)	(33,764)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2004

	Unaudited	
	Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
At 1st April	153,218	117,474
(Loss)/ profit for the period	(29,084)	8,553
Issue of shares upon initial public offering	–	6,750
Premium on issue of shares	–	38,475
Share issue expenses	–	(10,339)
	<hr/>	<hr/>
At 30th September	124,134	160,913

NOTES TO CONDENSED ACCOUNTS

1 Basis of preparation and accounting policies

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

These condensed accounts should be read in conjunction with the 2004 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st March 2004.

2 Turnover and revenues

The Group is principally engaged in foundation works, leasing of machinery and equipment for foundation works and trading of machinery and equipment. Turnover and revenues recognised during the Period are as follows:-

	Unaudited	
	Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Turnover		
Revenue from foundation works	7,098	50,833
Rental of machinery and equipment	1,112	3,084
Sale of machinery and equipment	—	16,885
	8,210	70,802
Other revenue		
Interest income	91	255
	91	255
Total revenues	8,301	71,057

3 Segment information

(a) *Business segments – primary reporting format*

	Unaudited Six months ended 30th September 2004		
	Trading of Foundation works HK\$'000	machinery and equipment HK\$'000	Total HK\$'000
Turnover	<u>8,210</u>	<u>–</u>	<u>8,210</u>
Segments results	<u>(26,707)</u>	<u>–</u>	<u>(26,707)</u>
Interest income			91
Unallocated income			979
Unallocated expenses			<u>(5,765)</u>
Operating loss			<u>(31,402)</u>
Finance costs			<u>(2,808)</u>
Taxation			<u>5,126</u>
Loss attributable to shareholders			<u><u>(29,084)</u></u>

3 Segment information (continued)

(a) *Business segments – primary reporting format (continued)*

	Unaudited		
	Six months ended 30th September 2003		
	Foundation works	Trading of machinery and equipment	Total
	HK\$'000	HK\$'000	HK\$'000
Turnover	53,917	16,885	70,802
Segments results	15,570	6,559	22,129
Interest income			255
Unallocated expenses			(5,198)
Operating profit			17,186
Finance costs			(3,206)
Taxation			(5,427)
Profit attributable to shareholders			8,553

(b) *Geographical segments – secondary reporting format*

No geographical segment analysis is presented as all operations of the Group are carried out in Hong Kong.

4 Operating (loss)/profit

	Unaudited	
	Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Operating (loss)/profit is stated after charging the following:-		
Cost of inventories sold	–	5,137
Staff costs, excluding directors' emoluments	9,037	15,432
Auditors' remuneration	80	180
Depreciation		
Owned fixed assets	8,319	4,001
Leased fixed assets	3,651	8,365
Operating lease rentals in respect of land and buildings	926	960

5 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the Period. The amount of taxation charged to the consolidated profit and loss account represents:

	Unaudited Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong profits tax (credit)/charge		
Current	–	2,614
Deferred (Note 12)	(5,126)	2,813
	(5,126)	5,427

6 Dividends

The Directors do not recommend the payment of dividend in respect of the Period (2003: nil).

7 (Loss)/earnings per share

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$29,084,000 (2003: profit of HK\$8,553,000) and the weighted average number of 300,000,000 (2003: 297,418,033) ordinary shares in issue during the Period. Diluted loss/earnings per share is not presented as the exercise of share options would have no dilutive effect on loss/earnings per share for the periods ended 30th September 2004 and 30th September 2003.

8 Trade receivables

Receivables in respect of contracting work in progress are under credit terms of around one month after the issuance of architects' certificates. Retention held by customers for contract works included in trade receivables as at 30th September 2004 amounted to HK\$14,094,000 (31st March 2004: HK\$16,169,000). The ageing analysis of the remaining trade receivables is as follows:

	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000
0 to 90 days	121	15,130
91 to 180 days	873	2,071
181 to 365 days	3,817	636
More than one year	354	184
	5,165	18,021
	5,165	18,021

9 Trade payables

Retention payable included in trade payables as at 30th September 2004 amounted to HK\$166,000 (31st March 2004: HK\$187,000). The ageing analysis of the remaining trade payables is as follows:

	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000
0 to 90 days	3,026	11,660
91 to 180 days	315	255
181 to 365 days	382	789
More than one year	1,461	1,149
	5,184	13,853
	5,184	13,853

10 Long-term liabilities

	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000
Bank loans, secured (note (a))	48,491	58,397
Obligations under finance leases (note (b))	31,077	49,379
Wholly repayable within five years	79,568	107,776
Less: amounts due within one year included under current liabilities	(45,187)	(50,630)
	34,381	57,146

Notes:

- (a) The Group's bank loans are repayable as follows:

	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000
Within one year	25,193	21,353
In the second year	22,050	24,321
In the third to fifth years	1,248	12,723
	48,491	58,397

Interest is charged on the balances at rates ranging from 1.75% above HIBOR to 1% above Hong Kong prime rate. The banking facilities were secured by certain of the Group's bank deposits, machinery and equipment and corporate guarantee given by the holding company and certain companies within the Group.

10 Long-term liabilities (continued)

(b) Obligations under finance leases are payable within the following periods:

	Present value		Minimum payment	
	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000
Within one year	19,994	29,277	20,893	30,742
In the second year	10,411	14,752	10,658	15,290
In the third to fifth years	672	5,350	677	5,421
	<u>31,077</u>	<u>49,379</u>	<u>32,228</u>	<u>51,453</u>
Finance charges			(1,151)	(2,074)
			<u>31,077</u>	<u>49,379</u>

Interest is charged on the outstanding balances of finance leases at rates ranging from 2.75% per annum to 1% above Hong Kong prime rate. The finance leases are secured by certain of the Group's machinery and equipment.

11 Share capital

	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000
Authorised:		
1,000,000,000 shares of HK\$0.1 each	<u>100,000</u>	<u>100,000</u>
Issued:		
300,000,000 shares of HK\$0.1 each	<u>30,000</u>	<u>30,000</u>

Pursuant to a resolution of the sole shareholder passed on 25th March 2003, the Share Option Scheme was approved and adopted. On 28th May 2003, options to subscribe for 4,500,000 ordinary shares of the Company were granted to directors. The grantees are entitled to exercise their options at a price of HK\$0.69 per share at any time during the period from 28th May 2004 to 27th May 2007. No options have been exercised by the grantees during the Period.

12 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a taxation rate of 17.5% (2004: 17.5%). The movement of the net deferred tax liabilities is as follows:

	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000
At beginning of the period/year	37,201	33,461
Deferred taxation (credited)/charged to profit and loss account (note 5)	<u>(5,126)</u>	<u>3,740</u>
At end of the period/year	<u>32,075</u>	<u>37,201</u>

12 Deferred taxation (continued)

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

	Accelerated depreciation allowances	
	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000
Deferred tax liabilities		
At beginning of the period/year	40,732	35,336
(Credited)/charged to profit and loss account	(1,102)	5,396
At end of the period/year	39,630	40,732
	Tax losses	
	Unaudited 30th September 2004 HK\$'000	Audited 31st March 2004 HK\$'000
Deferred tax assets		
At beginning of the period/year	(3,531)	(1,875)
Credited to profit and loss account	(4,024)	(1,656)
At end of the period/year	(7,555)	(3,531)

13 Contingent liabilities

As at 30th September 2004, the Group had contingent liabilities of approximately HK\$6.0 million in respect of a number of litigation proceedings arising in the normal course of its business. These include both claims against the Group and counterclaims made by defendants of actions initiated by the Group. The Directors of the Company are of the opinion that the ultimate liability under these proceedings, if any, would not have a material impact on the financial position of the Group.

14 Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Unaudited	
	Six months ended	
	30th September	
	2004	2003
	HK\$'000	HK\$'000
Rental expense paid to Cheer Crown Limited (note (a))	540	341
Consultancy fee to various companies (note (b))	840	823
	<u> </u>	<u> </u>

Notes:

- (a) Rental expenses are based on the tenancy agreement entered into between the parties involved with reference to market rates of similar properties.
- (b) Consultancy fees were paid to companies in which the directors, Mr. Chan Sun Kwong and Mr. Chiu Kam Kun, Eric have beneficial interests in respect of their services provided to the Group, and were charged at monthly fees agreed by the parties involved.