

Notes to the accounts

1 Group reorganisation and basis of preparation

The Company was incorporated in Bermuda on 26th June 2002 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired the entire issued share capital of Sam Woo Group Limited, the then holding company of the other subsidiaries, through a share swap arrangement on 28th March 2003 and became the holding company of the Group. Details of the Reorganisation are set out in the Company's prospectus dated 31st March 2003. The Company's shares were listed on the Stock Exchange on 9th April 2003.

The Reorganisation is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants ("HKSA"). The consolidated accounts of the Group for the year ended 31st March 2003, including comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA.

No balance sheet of the Company as at 31st March 2002 is presented in the accounts as the Company was not yet incorporated at that date.

2 Principal accounting policies

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

(a) Consolidation

The Reorganisation referred to in note 1 above has been accounted for using merger accounting by regarding the Company as being the holding company of the Group from the beginning of the earliest period presented.

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. Apart from the Reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2 Principal accounting policies *(continued)*

(a) Consolidation *(continued)*

Subsidiaries are those entities in which the Group has the power to exercise control governing its financial and operating policies so that the Group obtains benefit from these activities.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill.

In the Company's balance sheet, the investments in subsidiaries are carried at cost, less any provision for long-term impairment in value. The results of the subsidiaries are accounted for by the Company to the extent of dividends received and receivable.

(b) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of both owned and leased fixed assets is calculated to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. Estimated useful lives are summarised as follows:

Machinery and equipment	10-15 years
Furniture and fixtures	5 years
Motor vehicles	5 years

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

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amounts of the assets are estimated and where relevant, an impairment loss is recognised to the profit and loss account to reduce the assets to their recoverable amounts. Expected future cash flows have been discounted in determining the recoverable amounts.

Profit or loss on disposal of a fixed asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is dealt with in the profit and loss account.

2 Principal accounting policies *(continued)*

(c) Assets under leases

(i) Finance leases

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 the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

(ii) Operating leases

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

(d) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(e) Inventories

Inventories comprise machinery and equipment for resale purpose and are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Contracting work in progress

Contracting work in progress is valued at cost plus estimated attributable profits, less foreseeable losses and progress payments received and receivable. Cost comprises direct materials, labour and overhead expenses incurred in bringing the work in progress to its present condition.

2 Principal accounting policies *(continued)*

(f) Contracting work in progress *(continued)*

Revenue from contracting work is recognised based on the stage of completion of the contracts. The stage of completion of a contract is established by reference to the gross billing value of contracting work to date as compared to the total contract sum receivable under the contract, or the total costs attributable to work performed to date as compared to the estimated total contract costs, whichever is the lower. When it is probable that total contract costs will exceed total contract revenue, the foreseeable loss is recognised as an expense immediately. Profits calculated in this manner are transferred from gross profit to deferred income on the balance sheet and is released to the profit and loss account in accordance with the stage of completion of the contracts when the outcome of the relevant contract can be measured reliably which generally commences when the project is 50% completed.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers for contract works under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers for contract works under current liabilities.

(g) 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.

(h) Deferred taxation

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

(i) Contingent liabilities

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.

2 Principal accounting policies *(continued)*

(j) Revenue recognition

Revenue from contracting work is recognised based on the stage of completion of the contracts as detailed in note 2(f) above.

Machinery rental income is recognised on a time proportion basis.

Sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

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

Directorship fee income, management service income and maintenance service income are recognised when the underlying services are rendered.

Sub-leasing rental income of land and buildings are recognised on straight-line basis over the lease terms.

(k) Foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. All exchange differences arising are dealt with in the profit and loss account.

(l) Employee benefits

The Group's contributions to the defined contribution retirement scheme are expensed as incurred and the assets of the scheme are held separately from those of the Group in an independently administered fund.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

2 Principal accounting policies *(continued)*

(m) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format. Unallocated expenses represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, contracting work in progress, receivables, and exclude amounts due from related companies/immediate holding company and cash and bank balances. Segment liabilities comprised operating liabilities and excluded items such as taxation, amounts due to related companies/immediate holding company and bank overdrafts. Capital expenditure comprised additions to fixed assets.

(n) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash in hand and deposits held at call with banks, less bank overdrafts.

3 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 year are as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover		
Revenue from foundation works	188,566	423,783
Rental of machinery and equipment	4,028	–
Sale of machinery and equipment	10,356	26,363
	202,950	450,146
Other revenues		
Interest income	145	749
Maintenance service income	30	480
Directorship fee income	–	1,784
Management service income	–	12
Sub-leasing rental income	–	420
	175	3,445
Total revenues	203,125	453,591

4 Segment information

(a) Business segments – primary reporting format

	Foundation works HK\$'000	Trading of machinery and equipment HK\$'000	Total HK\$'000
Year ended 31st March 2003			
Turnover	192,594	10,356	202,950
Segments results	74,343	913	75,256
Interest income			145
Unallocated expenses			(116)
Operating profit			75,285
Finance costs			(8,425)
Taxation			(10,424)
Profit attributable to shareholders			56,436
As at 31st March 2003			
Segment assets	319,359	6,106	325,465
Unallocated assets			8,796
Total assets			334,261
Segment liabilities	126,032	566	126,598
Unallocated liabilities			90,189
Total liabilities			216,787
Year ended 31st March 2003			
Capital expenditure	11,606	–	11,606
Depreciation	24,511	7	24,518

4 Segment information *(continued)*

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

	Foundation works HK\$'000	Trading of machinery and equipment HK\$'000	Total HK\$'000
Year ended 31st March 2002			
Turnover	423,783	26,363	450,146
Segments results	73,568	1,778	75,346
Interest income			749
Unallocated expenses			(165)
Operating profit			75,930
Finance costs			(12,775)
Taxation			(10,421)
Profit attributable to shareholders			52,734
As at 31st March 2002			
Segment assets	369,547	3,910	373,457
Unallocated assets			66,848
Total assets			440,305
Segment liabilities	274,958	205	275,163
Unallocated liabilities			104,104
Total liabilities			379,267
Year ended 31st March 2002			
Capital expenditure	105,532	–	105,532
Depreciation	23,355	7	23,362
Provision for doubtful debts	2,739	–	2,739

4 Segment information *(continued)***(b) Geographical segments – secondary reporting format**

No geographical segment analysis is presented as all assets and operations of the Group are located in Hong Kong.

5 Operating profit

	2003 HK\$'000	2002 HK\$'000
Operating profit is stated after crediting:		
Write back of provision for doubtful debts	–	100
Gain on disposal of fixed assets	164	–
and after charging:		
Cost of inventories sold	9,062	24,534
Staff costs, excluding directors' emoluments	48,430	91,686
Auditors' remuneration	680	946
Depreciation		
Owned fixed assets	7,300	4,521
Leased fixed assets	17,218	18,841
Loss on disposal of fixed assets	–	91
Operating lease rentals in respect of land and buildings	2,692	2,601
Provision for doubtful debts	–	2,739

6 Finance costs

	2003 HK\$'000	2002 HK\$'000
Interest		
Bank loans and overdrafts	1,633	1,210
Finance leases	6,792	11,565
	8,425	12,775

7 Taxation

	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax		
Current	466	–
Deferred (<i>note 23</i>)	9,958	10,421
	10,424	10,421

Hong Kong profits tax for the year ended 31st March 2003 has been provided at the rate of 16% (2002: 16%) on the estimated assessable profit for the year.

8 Dividends

The directors do not recommend the payment of dividend in respect of the year ended 31st March 2003. Dividends in 2002 represented dividends paid by a subsidiary of the Company to its then shareholders prior to the Reorganisation.

9 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$56,436,000 (2002: HK\$52,734,000) and assuming that 232,500,000 ordinary shares issued pursuant to the Reorganisation had been in issue throughout both years.

Diluted earnings per share is not presented as the Company has no dilutive potential shares.

10 Emoluments for directors and highest paid individuals**(a) Directors' emoluments**

	2003 HK\$'000	2002 HK\$'000
Fees	–	–
Salaries, allowances and benefits in kind	2,387	3,399
Retirement benefit scheme contributions	96	79
	2,483	3,478

No directors of the Company waived any emoluments during the year. No emoluments were paid to independent non-executive directors during the year.

The emoluments of the directors of the Company fell within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	8	8
HK\$1,000,001 to HK\$1,500,000	1	1
	9	9

(b) Five highest paid individuals

The five highest paid individuals included one director (2002: three), details of whose emoluments are included in the above disclosures. The emoluments of the four (2002: two) remaining highest paid individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and allowances	2,061	997
Retirement benefits scheme contributions	48	12
	2,109	1,009

10 Emoluments for directors and highest paid individuals *(continued)***(b) Five highest paid individuals** *(continued)*

The emoluments of the above individuals fell within the following bands:

	Number of individuals	
	2003	2002
Nil to HK\$1,000,000	4	2

During the year, no emoluments were paid to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11 Retirement benefit scheme

With effect from 1st December 2000, a Mandatory Provident Fund scheme (the “MPF scheme”) has been set up for all employees in accordance with the Mandatory Provident Fund Scheme Ordinance (the “MPF Ordinance”). Under the rules of the MPF scheme, the employer and its employees are each required to contribute 5% of the employees’ gross salaries with a ceiling of HK\$1,000 per month to the MPF scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contribution under the scheme. Retirement benefit costs during the year amounted to HK\$1,898,000 (2002: HK\$3,534,000).

12 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$93,000.

13 Fixed assets

Group	Machinery and equipment	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost				
At 31st March 2002	383,386	1,501	3,295	388,182
Additions	11,182	324	100	11,606
Reclassification to inventories	(10,904)	–	–	(10,904)
Disposals	(12,989)	(27)	–	(13,016)
At 31st March 2003	370,675	1,798	3,395	375,868
Accumulated depreciation				
At 31st March 2002	69,927	713	1,752	72,392
Charge for the year	23,814	240	464	24,518
Reclassification to inventories	(2,059)	–	–	(2,059)
Disposals	(2,565)	(10)	–	(2,575)
At 31st March 2003	89,117	943	2,216	92,276
Net book value				
At 31st March 2003	281,558	855	1,179	283,592
At 31st March 2002	313,459	788	1,543	315,790

Notes:

- (a) The net book values of machinery and equipment held under finance leases amounted to HK\$215,143,000 (2002: HK\$260,492,000).
- (b) Fixed assets pledged for certain long-term loans amounted to HK\$2,938,000 (2002: HK\$5,850,000).

13 Fixed assets *(continued)*

Company	Furniture and fixtures HK\$'000
Cost	
Additions and at 31st March 2003	27
Accumulated depreciation	
Charge for the year and at 31st March 2003	5
Net book value	
At 31st March 2003	22

14 Subsidiaries

	2003 HK\$'000
Unlisted shares, at cost	117,567
Amounts due from subsidiaries	200
Amount due to a subsidiary	(4,572)
	113,195

Details of principal subsidiaries are set out in note 28 to the accounts.

15 Trade receivables

Receivables in respect of contracting work in progress are under credit terms of around one month after the issuance of architects' certificates. Retentions held by customers for contract works included in trade receivables amounted to HK\$12,796,000 (2002: HK\$16,804,000). The ageing analysis of the remaining trade receivables is as follows:

	2003	2002
	HK\$'000	HK\$'000
0 to 90 days	5,758	35,800
91 to 180 days	770	–
181 to 365 days	742	105
More than one year	15	47
	7,285	35,952

16 Contracting work in progress

	2003	2002
	HK\$'000	HK\$'000
Contract costs incurred plus attributable profits		
less foreseeable losses to date	492,511	752,657
Progress billings to date	(477,466)	(832,918)
	15,045	(80,261)
Represented by:		
Amounts due from customers	15,059	–
Amounts due to customers	(14)	(80,261)
	15,045	(80,261)

17 Amounts due from a related company, immediate holding company and a director

	At 31st March		Maximum amount outstanding during the year	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amount due from a related company Sam Woo Marine Works Limited	-	1,667	1,667	1,667
Amount due from immediate holding company Actease Assets Limited	-	37,778	37,778	37,778

Related companies are entities which have common shareholders and directors with the Company. The amounts receivable from the related company and immediate holding company were fully settled during the year.

Balance with Mr. Lau Chun Ming ("Mr. Lau"), a director of the Company, is nil as at 31st March 2003 and 2002. The maximum amount outstanding during the year is as follows:

	2003 HK\$'000	2002 HK\$'000
Maximum amount due from a director during the year	42,659	7,941

18 Trade payables

Retention payable included in trade payables amounted to HK\$295,000 (2002: HK\$422,000). The ageing analysis of the remaining trade payables is as follows:

	2003 HK\$'000	2002 HK\$'000
0 to 90 days	4,126	12,230
91 to 180 days	722	7,585
181 to 365 days	2,396	1,051
More than one year	1,884	1,329
	9,128	22,195

19 Banking facilities and finance lease facilities

As at 31st March 2003, the Group's banking facilities and finance lease facilities totaling approximately HK\$96,243,000 and HK\$93,810,000, respectively, were secured by the following:

- (a) Bank deposit of a subsidiary amounting to HK\$3,682,000;
- (b) Certain machinery and equipment of the Group (note 13);
- (c) Bank deposits held by Mr. Lau Chun Ming ("Mr Lau") amounting to US\$1,750,000 and HK\$23,000,000;
- (d) Bank deposits of Cheer Crown Limited, a company beneficially owned by Mr. Lau, amounting to HK\$20,000,000;
- (e) Personal guarantees provided by the directors of the Company, Mr. Lau, Mr. Lau Chun Kwok, Mr. Lau Chun Ka and Ms. Leung Lai So;
- (f) Corporate guarantees given by Cheer Crown Limited; and
- (g) Certain leasehold land and buildings in Hong Kong of Cheer Crown Limited and Sam Woo Marine Works Limited, a company beneficially owned by Mr. Lau.

19 Banking facilities and finance lease facilities *(continued)*

As stated in the Company's prospectus dated 31st March 2003, the banks and financial institutions have agreed that the guarantees and charges under (c) to (g) above be released and replaced by corporate guarantees issued by the Company upon the listing of the Company's shares on the Stock Exchange. As at the date of approval of these accounts, the release of certain of these guarantees and charges are still in progress.

20 Long-term liabilities

	2003 HK\$'000	2002 HK\$'000
Bank loans, secured	3,207	3,522
Obligations under finance leases	93,810	158,206
Wholly repayable within five years	97,017	161,728
Less: amounts due within one year included under current liabilities	(56,668)	(69,791)
	40,349	91,937

The Group's bank loans are repayable as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	1,204	2,202
In the second year	1,233	368
In the third to fifth years	770	952
	3,207	3,522

20 Long-term liabilities *(continued)*

Obligations under finance leases are payable as follows:

	Present value		Minimum payment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	55,464	67,589	60,574	77,182
In the second year	24,366	55,574	25,749	59,913
In the third to fifth years	13,980	35,043	14,448	36,673
	93,810	158,206	100,771	173,768
Finance charges			(6,961)	(15,562)
			93,810	158,206

Interest is charged on the outstanding balances of finance leases at rates ranging from 1% below Hong Kong prime rate to 10.5% per annum.

21 Share capital

Company	Ordinary shares of HK\$0.1 each	
	Number of shares	HK\$'000
Authorised:		
Upon incorporation (<i>note a</i>)	1,000,000	100
Increase in authorised share capital (<i>note b(ii)</i>)	999,000,000	99,900
At 31st March 2003	1,000,000,000	100,000
Issued:		
Allotted and issued nil paid upon incorporation (<i>note a</i>)	1,000,000	–
Allotted and issued nil paid on 28th March 2003 (<i>note b(ii)</i>)	2	–
Issue of shares upon Reorganisation (<i>note b(iii)</i>)	249,998	125
Capitalisation issue (<i>note b(iv)</i>)	231,250,000	23,125
At 31st March 2003	232,500,000	23,250

21 Share capital *(continued)*

The following changes in share capital took place during the period from 26th June 2002 (date of incorporation) to the date of this report:

- (a) The Company was incorporated in Bermuda on 26th June 2002 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each, all of which were allotted and issued nil-paid on 9th August 2002.
- (b) In preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the following changes in the Company's authorised and issued share capital took place:
 - (i) Pursuant to written resolutions dated 25th March 2003, the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 ordinary shares of HK\$0.10 each. Such shares rank pari passu in all respects with the existing shares in issue.
 - (ii) On 28th March 2003, two additional ordinary shares were allotted and issued nil-paid.
 - (iii) On 28th March 2003, the Company further allotted and issued a total of 249,998 new ordinary shares of HK\$0.10 each, and credited as fully paid the shares issued under (a) and (b)(ii), as consideration for the acquisition of the entire issued share capital of Sam Woo Group Limited, which is now a direct subsidiary of the Company.
 - (iv) Also on 28th March 2003, 231,250,000 shares of HK\$0.10 each were issued at par as fully paid to the existing shareholders by way of capitalisation of the sum of HK\$23,125,000 standing to the contributed surplus account of the Company.
 - (v) On 8th April 2003, 67,500,000 ordinary shares of HK\$0.10 each were allotted and issued to the public and institutional investors at HK\$0.67 per share for cash. The use of such proceeds, as well as other details relating to the new issue, is set out in the prospectus of the Company dated 31st March 2003.
 - (vi) The share capital presented in the consolidated balance sheet as at 31st March 2002 represented the share capital of the Company arising on incorporation and from the share swap transactions described in notes (a), (b)(ii), (b)(iii) and (b) (iv) above, which is deemed to have been in issue throughout the accounting periods presented in these accounts in accordance with the basis of preparation as referred to in note 1.

22 Reserves

Group	Merger reserve	Retained profit	Total
	HK\$'000	HK\$'000	HK\$'000
At 31st March 2001	(12,974)	70,640	57,666
Profit attributable to shareholders	–	52,734	52,734
2001 final dividends	–	(72,612)	(72,612)
At 31st March 2002	(12,974)	50,762	37,788
Profit attributable to shareholders	–	56,436	56,436
At 31st March 2003	(12,974)	107,198	94,224

Company	Contributed surplus	Accumulated loss	Total
	<i>(note b)</i> HK\$'000	HK\$'000	HK\$'000
At 31st March 2002	–	–	–
Surplus arising on issue of shares in exchange for shares in a subsidiary <i>(note a)</i>	117,442	–	117,442
Capitalisation issue	(23,125)	–	(23,125)
Loss for the year	–	(93)	(93)
At 31st March 2003	94,317	(93)	94,224

Notes:

- (a) The surplus arising on issue of shares in exchange for shares in a subsidiary arose as a result of the Reorganisation and represents the excess of the consolidated net asset value of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange thereof.
- (b) Under the Companies Act of Bermuda (as amended) and the Bye-Laws of the Company, the contributed surplus is distributable to the shareholders.

23 Deferred taxation

	2003 HK\$'000	2002 HK\$'000
At beginning of the year	23,503	13,082
Transfer from profit and loss account (<i>note 7</i>)	9,958	10,421
At end of the year	33,461	23,503
Provided in respect of:		
Accelerated depreciation allowances	35,336	32,135
Tax losses	(1,875)	(8,632)
	33,461	23,503

24 Commitments**(i) Capital expenditure commitments**

	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for	-	3,720

(ii) Operating lease commitments

The future aggregate minimum lease rental expenses in respect of land and buildings under non-cancellable operating leases are as follows:

	2003 HK\$'000	2002 HK\$'000
Within one year	750	523
In the second to fifth years inclusive	151	9
	901	532

25 Contingent liabilities

As at 31st March 2003, the Group had contingent liabilities of approximately HK\$6.1 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, having taken into consideration the advice from the Group's legal counsels, 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.

26 Notes to consolidated cash flow statements

(a) Reconciliation of operating profit to net cash generated from operations

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	66,860	63,155
Interest expense	8,425	12,775
Interest income	(145)	(749)
Depreciation	24,518	23,362
(Gain)/loss on disposal of fixed assets	(164)	91
Cash flow from operations before working capital changes	99,494	98,634
Decrease in trade receivables	32,675	1,306
(Increase)/decrease in deposits, prepayments and other receivables	(3,317)	4,953
Decrease in inventories	6,717	22,520
(Increase)/decrease in contracting work in progress	(95,306)	40,554
Decrease in trade payables	(13,194)	(1,197)
(Decrease)/increase in accruals and other payables	(5,161)	4,115
Net cash generated from operations	21,908	170,885

26 Notes to consolidated cash flow statements (continued)**(b) Analysis of changes in financing during the year**

	Amounts due to/ (from) related companies and immediate holding company	Short-term bank loans	Secured long-term bank loans	Obligations under finance leases	Restricted bank balance	Dividend payable
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st March 2001	15,646	5,424	3,505	133,577	-	-
Cash (outflow)/inflow from financing	(55,091)	(5,424)	17	(62,768)	-	-
Inception of new finance leases*	-	-	-	87,397	-	-
Dividend declared for 2001	-	-	-	-	-	72,612
At 31st March 2002	(39,445)	-	3,522	158,206	-	72,612
Cash inflow/(outflow) from financing	39,445	14,380	(315)	(69,692)	(3,682)	-
Inception of new finance leases*	-	-	-	5,296	-	-
Dividend paid	-	-	-	-	-	(72,612)
At 31st March 2003	-	14,380	3,207	93,810	(3,682)	-

* Non-cash transactions

27 Related party transactions

During the year, apart from those disclosed in notes 17 and 19, the following significant transactions with related companies in the normal course of business of the Group had taken place:

	Notes	2003 HK\$'000	2002 HK\$'000
Received and receivable from related parties:			
Maintenance income from Sam Woo Ship Building Limited	(a)	30	480
Management service income from Sam Woo Engineering Works	(a)	–	12
Disposal of fixed assets to Sam Woo Ship Building Limited	(b)	1,217	–
Pier parking rental income from Sam Woo Ship Building Limited	(c)	–	420
Sale of inventories to Sam Woo Ship Building Limited	(d)	–	18,002
Directorship fee income from Cheer Crown Limited	(e)	–	1,784
Paid and payable to related parties:			
Rental expense to Cheer Crown Limited	(c)	1,197	1,821
Rental expense to Nice Rainbow Investment Limited	(c)	300	324
Inventories purchased from Mr. Lau	(f)	94	306
Consultancy fees to various companies	(g)	2,057	–

Notes:

- (a) Maintenance and management fee income are charged for the provision of management and maintenance services and are based on the number of vessels and associated equipment that the Group is required to maintain.
- (b) Fixed assets are disposed at net book value to a related company.
- (c) Sub-leasing rental income and rental expenses are based on the tenancy agreement entered into between the parties involved with reference to market rates of similar properties.
- (d) Sales to a related company are based on the carrying value of the inventories.
- (e) Directorship fee income are determined by the board of directors of the related company based on the effort and responsibilities performed and approved in its annual general meeting. The directorship ceased with effect from 1st November 2001.
- (f) Purchase of inventories are conducted in the normal course of business at prices and terms no less favourable than those contracted with other third party suppliers.
- (g) Consultancy fees were paid to companies in which 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.

27 Related party transactions *(continued)*

In the opinion of the directors of the Company, the above related party transactions were carried out in the normal course of business and at terms mutually agreed between the Group and the respective related parties.

28 Principal subsidiaries

Listed below are the Group's subsidiaries, all of which are wholly owned and operated in Hong Kong:

Company	Issued and fully paid ordinary share capital	Principal activities
<i>Incorporated in the British Virgin Islands, directly held</i>		
Sam Woo Group Limited	10,000 shares of US\$1 each	Investment holding
<i>Incorporated in Hong Kong, indirectly held</i>		
Sam Woo Bore Pile Foundation Limited	10,000,000 shares of HK\$1 each	Foundation works
Sam Woo Civil Contractors Limited	10,000 shares of HK\$1 each	Civil engineering works
Sam Woo Construction Limited	10,000 shares of HK\$1 each	Foundation works
Sam Woo Construction & Engineering Limited	100,000 shares of HK\$1 each	Trading of used foundation works related machinery and equipment
Sam Woo Engineering Equipment Limited	500,000 shares of HK\$1 each	Leasing of machinery and equipment for foundation works
Sam Woo Group (Holdings) Limited	10,000 shares of HK\$1 each	Inactive

29 Ultimate holding company

The directors of the Company regarded Silver Bright Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

30 Subsequent event

The shares of the Company were listed on the Stock Exchange on 9th April 2003.

31 Approval of accounts

The accounts were approved by the board of directors on 16th July 2003.