

# NOTES TO FINANCIAL STATEMENTS

31 July 2000

## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate for the year is based on the actual cost of the related borrowings. All other borrowing costs are recognised as expenses in the period in which they are incurred.

### Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

### Foreign currencies

With the exception of certain overseas incorporated subsidiaries and associates, the Group's financial records and financial statements are maintained and stated in Hong Kong dollars.

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of the subsidiaries and associates denominated in other currencies are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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## 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

### Provident fund schemes

The Group operates several defined contribution provident fund schemes which the employees of the Group are entitled to join after fulfilling certain conditions. The amount of the Group's contributions is based on a fixed percentage of the basic salary of each participating employee. Forfeited contributions in respect of the unvested benefits of those employees who leave the scheme are used to reduce the Group's ongoing contributions. Net contributions are charged to profit and loss account in the period to which they relate.

The assets of the scheme are held separately from those of the Group and are managed by independent professional fund managers.

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represents short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

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## 6. TURNOVER AND REVENUE

The Group's turnover represents the net invoiced value of services rendered, sales of floating craft and vessels, gross rental income from floating craft and vessels and an appropriate proportion of the contract revenue of construction contracts during the period, after elimination of all significant intercompany transactions. Revenue from the following activities has been included in turnover.

	<b>Period ended</b> <b>31 July</b> <b>2000</b> <b>HK\$'000</b>	Year ended 31 March 1999 <i>HK\$'000</i>
Continuing operations:		
Marine engineering	<b>32,870</b>	130,437
Discontinued operations:		
Contracting	<b>3,119</b>	54,796
Structural steel	<b>6,379</b>	172,331
Electrical and mechanical engineering	<b>28,957</b>	191,720
	<b>38,455</b>	418,847
Turnover	<b>71,325</b>	549,284

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### 7. TURNOVER AND PROFIT/(LOSS) BY OPERATING ACTIVITY AND GEOGRAPHICAL SEGMENT

An analysis of turnover and profit/(loss) by operating activity and geographical segment is as follows:

	Period ended 31 July 2000		Year ended 31 March 1999	
	Turnover <i>HK\$'000</i>	Profit/ (loss) <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Profit/ (loss) <i>HK\$'000</i>
By operating activity:				
Continuing operations:				
Marine engineering	32,870	45,882	130,437	(269,334)
Discontinued operations:				
Contracting	3,119	1,081	54,796	(210,150)
Structural steel	6,379	(45,758)	172,331	(217,494)
Electrical and mechanical engineering	28,957	(13,585)	191,720	(116,381)
	<u>38,455</u>	<u>(58,262)</u>	418,847	(544,025)
Gain on disposal of subsidiaries	–	735,889	–	1,698
	<u>71,325</u>	<u>723,509</u>	<u>549,284</u>	<u>(811,661)</u>
By geographical segment:				
The People's Republic of China:				
Hong Kong, S.A.R.	49,279	748,263	511,914	(672,285)
Elsewhere	4,966	(5,884)	902	(74,467)
Singapore	17,080	(18,955)	7,238	(52,567)
Others	–	85	29,230	(12,342)
	<u>71,325</u>	<u>723,509</u>	<u>549,284</u>	<u>(811,661)</u>

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## 8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

(a) The Group's loss from operating activities is arrived at after charging/(crediting):

	Period ended 31 July 2000 HK\$'000	Year ended 31 March 1999 HK\$'000
Depreciation:		
Owned fixed assets	19,533	61,896
Leased fixed assets	64	2,253
Operating lease rentals in respect of:		
Land and buildings	7,884	4,399
Floating craft and vessels	–	12,389
Amortisation of deferred expenditure	–	3
Auditors' remuneration	1,494	2,329
Staff costs:		
Wages and salaries (including directors' remuneration – note 9)	23,094	54,873
Contributions to defined contribution provident fund schemes	331	1,104
Less: Forfeited contributions offset*	(331)	(1,104)
Net pension contributions	–	–
	<u>23,094</u>	<u>54,873</u>
Net rental income	(1,845)	–
(Gain)/loss on disposal of fixed assets	(48,578)	24,271
Foreign exchange losses, net	2,790	18,632
Dividend from listed investment	–	(125)
Interest income	(341)	(1,302)
Gain on disposal of subsidiaries	(735,889)	(1,698)
Gain on deemed disposal of interest in an associate	<u>(348)</u>	<u>(707)</u>

\* As at 31 July 2000, the amount of forfeited contributions available to offset future employer's contributions to the schemes was nil (31 March 1999: approximately HK\$0.4 million).

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## 8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (Continued)

	Period ended 31 July 2000 HK\$'000	Year ended 31 March 1999 HK\$'000
(b) Included in other revenue:		
Compensation recovered from a sub-contractor	–	(4,012)
Write back of provision for diminution in value for investment in an unconsolidated subsidiary	–	(6,737)
Write off of long overdue creditors	–	(4,950)
Gain on disposal of listed investment	–	(39)
Net rental income from the sub-letting of properties	(1,845)	–
Gain on disposal of fixed assets, net	(48,578)	–
Dividend from listed investment	–	(125)
Interest income	(341)	(1,302)
Gain on disposal of subsidiaries	(735,889)	(1,698)
Gain on deemed disposal of interest in an associate	<u>(348)</u>	<u>(707)</u>
(c) Included in other operating expenses:		
Provision for the decline in the recoverable amounts of:		
Floating craft and vessels	–	62,191
Leasehold land and buildings	–	71,195
Plant and machinery	–	40,747
Provision for losses in connection with construction contracts (note (i))	–	273,977
Provision for liquidated damages claimed by main contractors	6,118	38,320
Provision for doubtful receivables:		
Trade receivables	–	24,100
Retention money receivable	–	12,281
Advances to subcontractors and prepayments, deposits and other receivables	–	6,436
Provision against inventories	–	4,533
Provision for diminution in value for investment in associates	–	4,664
Loss on write off of fixed assets	206	6,331
Loss on write off of intangible assets	–	7,300
Provision for settlement of performance bonds	–	56,000
Loss on disposal of fixed assets	<u>–</u>	<u>24,271</u>

Note:

- (i) The provisions include full provisions for all construction contract costs and foreseeable losses in respect of construction contracts for which the outcome cannot be estimated reliably.